

# Birla Central Library

PILAN (Rajasthan)

Class No. - 658.8

Book No. - S4285

Accession No. - 36435

Acc. No... ..

## ISSUE LABEL

***Not later than the latest date stamped below.***

--	--	--



## SCIENTIFIC DISTRIBUTION

*ALSO BY R. SIMMAT*

---

## **PRINCIPLES AND PRACTICE OF MARKETING**

By R. SIMMAT, M.A. With a Foreword by Dr. L. D. H. WELD.

"Mr. Simmat writes with his invariable clear-headedness and conciseness, and presents his 'story' in really diverting fashion . . . yet he manages to cram a great deal of solid information into the work, which the far-seeing sales manager will read with interest and benefit."—*SALES MANAGEMENT*.

In demy 8vo, cloth gilt, 268 pp. 12s. 6d. net.

## **MARKET RESEARCH**

**The Principles and Method of Advertising Research and Market Analysis and Their Scientific Application to Sales Development.**

"Brings before the advertiser a wealth of suggestion which, if adopted, may well save him a great deal of money."—*BRITISH TRADE REVIEW*.

In demy 8vo, cloth gilt, 128 pp. 6s. net.

## **THE PRINCIPLES AND PRACTICE OF ADVERTISING**

"The volume on the whole is an excellent guide to all connected with package design, display and advertising."—*WORLD'S PRESS NEWS*.

In demy 8vo, cloth gilt, 500 pp. 15s. net.

## **PERSONAL SALESMANSHIP**

**An Outline of the Fundamental Principles of Successful Selling.**

With a Foreword by VICTOR MOORREFS, Ph.D.

"Every fundamental principle of successful selling is presented in a manner which permits of no possible misapprehension."—*BRITISH EXPORT GAZETTE*.

In demy 8vo, cloth, 96 pp. 3s. 6d. net.

**PITMAN**

# SCIENTIFIC DISTRIBUTION

A PRACTICAL GUIDE TO THE  
DISTRIBUTION PROCESS AND TO MODERN  
METHODS OF MARKETING AND SELLING

BY

R. SIMMAT, M.A.

—  
AUTHOR OF

"PERSONAL SALESMANSHIP," "MARKET RESEARCH,"

"THE PRINCIPLES AND PRACTICE OF ADVERTISING"

"THE PRINCIPLES AND PRACTICE OF MARKETING"



LONDON  
SIR ISAAC PITMAN & SONS, LTD.

1940

SIR ISAAC PITMAN & SONS LTD. |  
PITMAN HOUSE, PARKER STREET, KINGSWAY, LONDON, W.C.2  
THE PITMAN PRESS, BATH  
PITMAN HOUSE, LITTLE COLLINS STREET, MELBOURNE

ASSOCIATED COMPANIES  
PITMAN PUBLISHING CORPORATION  
2 WEST 45TH STREET, NEW YORK  
205 WEST MONROE STREET, CHICAGO  
SIR ISAAC PITMAN & SONS (CANADA), LTD.  
(INCORPORATING THE COMMERCIAL TEXT BOOK COMPANY)  
PITMAN HOUSE, 381-383 CHURCH STREET, TORONTO

## INTRODUCTION

THE student whose researches into the problems of Distribution take him beyond superficialities will tend to be confused by the vast amount of work which has been done in this field. At the same time he may be amazed at the apparent lack of co-ordination in thought. If he is curious, and permits his investigations to take him into an examination of conditions operating abroad, he will quickly discover that the issue is still further complicated by the influence of political ideologies. It is the purpose of this book to evaluate, so far as is possible, the practices which have been evolved to procure the bringing of goods from the Producer to the Consumer, whether they are raw materials, semi-manufactured, or manufactured merchandise; whether they are branded or unbranded; whether the Consumer is the ordinary individual member of the public, or a large business enterprise; whether they are sold in a competitive or in a controlled market; or whether the process of Distribution is regulated by the State, or operating in a free market.

Whatever the social, political, or economic philosophy determining any given system of Distribution, the implicit—if not the explicit—motive, is that goods or materials should reach the Consumer in the best condition, at the lowest possible cost, and be available as and when required. The evolution of modern society is said to have made the business of living more complex. We have the spectacle of famine amid plenty—of a glut of wheat in one part of the world, and multitudes clamouring for bread in another—or, coming nearer home, of fruit falling to the ground, unpicked, in the South of England, while in industrial areas the same fruit is unobtainable—of herring fleets being

prevented from going to sea in the North, while families cry for nourishment in the East End of London.

It has been darkly hinted that these evils are the result of some mysterious breakdown in our modern system of Distribution—yet no one has been able to say specifically and definitely in what way it has occurred, or, as yet, to bring forward tangible and practical suggestions permanently and indisputably to remedy the situation. Some authorities say we have too many shops—that the unfortunate middleman is too greedy for profits, thus clogging the whole system. A loud outcry has been raised for a “Census of Distribution” in Great Britain, claiming that, when this has been compiled, the cure will be apparent. But will it?

In some countries Distribution has come under State regulation to varying degrees. Competitive activities have been curtailed. More radically still, in other instances, the State has acquired direct control not only of Production, but also of Distribution.

The impartial student in search of knowledge cannot permit himself to be influenced by one or another political doctrine, but the fact remains that in Russia, in Germany, in Italy, in the United States, even in Great Britain, gigantic social experiments are being made—in the field of distributing goods, equally as in other directions. Nor can the results of these experiments—in so far as they are apparent at present—be ignored or lightly set aside because they are the offshoot of some ideology. To some extent, it may be because we are too greatly concerned with our own special needs, or our own direct interests, that we have not taken the trouble to make ourselves better acquainted with the carefully planned work being done in spheres a little apart from our own—and so our conception of Distribution and its problems—and their solution—is not so comprehensive or so co-ordinated as it should be.

In England, the economist tends to take one view of Distribution; he allies it to whatever school of thought he belongs, and evolves remedies which invariably are too metaphysical in their nature for the Producer or the Consumer—the main persons concerned—to understand their import, much less put them to practical use.

The Free Trader or the Protectionist takes other views, advocating the merits or demerits of restrictive tariffs and quotas. The Socialist asserts the desirability of the State taking over complete control of Distribution; the Fascist and the Communist advance a similar theory, possibly in slightly different ways. The political aspects of Distribution have their plethora of literature, all of which is equally metaphysical to the Producer or the Consumer. Political theory as such rarely has satisfied the cry of the people for more bread, the hope of the manufacturer that his machinery will be kept working to full capacity, or the desire of the Producer of raw materials that he shall receive a sufficient return for his labours.

But a great deal of practical thought, nevertheless, has been devoted in Great Britain to this problem of Distribution, and by men whose experience has equipped them to deal competently with its individual aspects. Without desiring to decry their efforts, it may, however, be said that almost without exception, each has operated in too narrowly circumscribed an area. Invariably they have permitted the needs of one particular industry to blind them to major issues. They have tended to see individual trees, but not the whole forest. They have sought to remedy a detailed fault, while failing to evolve a cure for the entire system.

A vast literature has been produced during recent years dealing with the most effective methods of marketing and distributing branded manufactured goods in a competitive market. Principles and procedures have been laid down

and put into effect. Yet the major evils still have persisted—the children in the slums of the great cities still shiver during the winter for want of clothes, while the woollen mills in Scotland work half-time.

On the other hand, the Government have taken an interest especially in the marketing of agricultural produce. More recently this has extended to manufacturing industries, such as the cotton goods trade. Commissions of inquiry have been appointed. Principles have been established. Marketing Boards have been appointed. It is remarkable that the manufacturers of branded goods as a group should have so little knowledge of the informative findings published as the result of these labours, or if they have, that they should not have taken them to heart and applied them to their own industries.

The solution to the problems of Distribution may be in the formation of democratically elected Marketing Boards or Corporations, to establish methods for regulating each industry, or in the institution of industrial dictatorships, or in the taking over of industry by the State, or even in enlightened action being taken through trade associations to eliminate wasteful competitive activities. It is not proposed to discuss the relative merits of any particular system in this volume. The object is to present to the student as comprehensive a view as possible of the field of Distribution, its problems, and the solutions which have proved workable. The aim will be to view the facts impartially, and, if possible, when discussion of detail is necessary, to do so without obscuring major issues and principles, thereby co-ordinating into a comprehensive whole the thought which has been applied to Distribution in its many fields. It is hoped that the conclusions indicated will not be so abstract as to be impracticable, and that they will serve as a guide to those whose day-to-day work demands concrete assistance with a minimum of theory.

R. S.

# CONTENTS

	PAGE
INTRODUCTION . . . . .	V

## CHAPTER I

THE EVOLUTION OF DISTRIBUTION TECHNIQUE . . . . .	I
---	---

The significance of surplus goods or materials—Primitive specialization—The monetary system and "surpluses"—Transport and the distribution of "surpluses"—Distribution under the Domestic System in England—Distribution subsequent to the Industrial Revolution—Effects of international relations upon distribution—Distribution at the beginning of the twentieth century—The era of scientific marketing and distribution

## CHAPTER II

DISTRIBUTION AND THE STATE . . . . .	18
--------------------------------------	----

An example of state intervention in the woollen industry—The reasons for state intervention—The principles underlying the establishment of Marketing Boards in Great Britain—Marketing schemes in operation and sponsored by the state—Methods of operating marketing schemes—State control of manufactured commodities—State intervention in industry in the U.S.A.—Examples of recent State intervention in Great Britain

## CHAPTER III

NON-STATE REGULATION OF DISTRIBUTION . . . . .	33
--	----

Co-ordination in the agricultural industry through voluntary action by private associations—Co-ordination of the distribution of manufactured goods through private associations—Regulation of distribution by individual manufacturers —The influence of the Co-operative Movement

## CHAPTER IV

THE ERA OF "SCIENTIFIC" DISTRIBUTION . . . . .	42
--	----

The technique of market research—The statistical approach—The economic approach—The psychological approach—The anthropological approach—Specialist aspects of modern distribution

## CHAPTER V

PAGE

## THE CHAIN OF MODERN DISTRIBUTION . . . . . 55

Direct distribution from the producer to the consumer—Distribution to the consumer through independent retailers—Distribution from producer through wholesale merchants to retailers and consumers—The implications of producers dealing direct with retailers—The effect of advertising upon the producer-wholesaler-retailer relation—Repercussions resulting from the marketing of competitive branded goods

## CHAPTER VI

## PRODUCT TYPE AND ITS RELATION TO DISTRIBUTION

## PROCEDURE . . . . . 68

The implications of branding commodities—Classification of finished goods for individual consumer use—The distribution of convenience goods—The distribution of shopping goods—The distribution of speciality goods—The distribution of products for industrial use

## CHAPTER VII

## DISTRIBUTION AS A MAJOR FUNCTION IN BUSINESS

## ORGANIZATION . . . . . 77

The evolution of the distribution function—The significance of distribution as a specialized function—The scope of the distribution function—The relation between marketing and the production function—The distinction between marketing and selling

## CHAPTER VIII

## THE FORMULATION OF GENERAL MARKETING POLICY . . . . . 88

The dangers resultant from the lack of a clearly defined policy—Factors important in defining marketing policy—Who should define marketing policy?—Selective and general distribution—The implications of selective distribution—The effect of competition upon distribution policy—Control of selective distribution policy—Conservative and progressive marketing policies—Implications of a conservative marketing policy—Developmental marketing policy

## CHAPTER IX

## PRODUCTION AND ITS RELATION TO MARKETING POLICY 100

The production plan—The relation of factory output to budgeted sales—Determination of design characteristics—Merchandizing units—Operation of the budgetary control system—The implications of basing the production plan on the sales budget

# CHAPTER X

PAGE

PRICE POLICY AND PRICE CONTROL . . . . .	I09
--	-----

Basic factors important in defining price policy—The one price policy—The variable price policy—Methods of price fixing—Price fixation by direct control—Indirect price fixation—The Objectives of price control

# CHAPTER XI

CONTROLLING WAREHOUSE STOCKS . . . . .	II6
--	-----

Directions in which control may be exercised—Financial control of warehouse stocks—Method of planning physical stocks—The Model Stock Plan—The operation of the Model Stock Plan—The Model Stock plan and price control—Records to implement the Model Stock plan

# CHAPTER XII

THE MODERN CONCEPTION OF SELLING AND SALES MANAGEMENT . . . . .	I24
--	-----

Personal and non-personal selling—The objectives of personal selling—The objectives of non-personal selling—The function of sales management—The function of the sales manager—The operation of sales control—Types of selling—Conception of sales management in relation to controlled distribution

# CHAPTER XIII

ADVERTISING AND PROPAGANDA . . . . .	I34
--------------------------------------	-----

General principles which must operate in respect of effective advertising and propaganda—Application of these principles—The aim of advertising—Advertising in relation to individual needs—Methods employed by advertising—Function of advertising in a scheme of controlled distribution—How advertising should be controlled

# CHAPTER XIV

DISTRIBUTION OF THE FUTURE . . . . .	I46
--------------------------------------	-----

# CHAPTER XV

DISTRIBUTION AND WAR . . . . .	I50
--------------------------------	-----

Directions in which state control has been exercised—Problems arising from state control of distribution under war-time conditions—Raw materials and plant facilities—Labour—Location of markets at home—Export markets—Market characteristics and their exploitation—Selling methods—Conclusion

INDEX . . . . .	165
-----------------	-----



# SCIENTIFIC DISTRIBUTION

## CHAPTER I

### THE EVOLUTION OF DISTRIBUTION TECHNIQUE

THE significance of surplus goods or materials—Primitive specialization—The monetary system and "surpluses"—Transport and the distribution of "surpluses"—Distribution under the Domestic System in England—Distribution subsequent to the Industrial Revolution—Effects of international relations upon distribution—Distribution at the beginning of the twentieth century—The era of scientific marketing and distribution.

THE interesting story is told of a certain trader who, endeavouring to procure certain raw materials from the inhabitants of a distant Central African region, found that, despite all the inducements he offered, the natives were far too lazy to want to work and collect the quantities he required. It is related that, after considerable thought, the enterprising trader established a cinema and a beauty parlour, whereupon the women folk of the tribe brought such pressure upon their men that they were forced to work to earn money to pay for such luxuries, with the result that the trader quickly obtained all the raw materials he needed. Whether this ultimately was a blessing or otherwise to the natives is not the question at issue. The moral is that goods or services can only be bought and sold when there is money or its equivalent to form the basis of every transaction, when there exists a desire to work and earn that money, and when the need for the goods or services has been created.

The description of the British as a nation of shopkeepers has become a much-worn and hackneyed phrase. Undoubtedly the Romans had shops in their English town

Londinium. But the process of the distribution of goods can be dated much earlier than this. The traditional method of disposing of all kinds of wares in the East has been the bazaar, which has as its counterpart the "markets" of the modern provincial towns. Another method was by means of itinerant "merchants" or pedlars who went from centre to centre, buying and selling.

### THE SIGNIFICANCE OF SURPLUS GOODS OR MATERIALS

If a student of social evolution were to make an investigation into the origin of disposing of goods or materials, he probably would find the term "surplus" figuring largely in his researches. This name "surplus," in a very much aggravated form, is of equal importance in the study of modern distribution problems. In later chapters it will be mentioned very frequently.

The anthropologist and the psychologist tell us that man's earliest activity, and one which occupied the greater proportion of his time, was hunting—either for food, or furs with which to clothe himself. It was inevitable that, at times, the individual killed more than was needed for his own requirements, or those of his family or tribe. In other words, occasionally, or perhaps even frequently, he had a "surplus." As a thinking individual, and lacking storage facilities, either he had to leave the excess meat or furs to rot, or else he could barter them to others who had a "surplus" of say, weapons, wives, or other necessities he himself happened to require. Thus one "surplus" was exchanged for another. If meat or furs were "scarce," i.e. the available "surplus" of them was small, and the available "surplus" of weapons or wives was large, then one unit of meat or furs might be traded for, say, ten units of weapons or wives. If the reverse happened to be the case, then one

unit of weapons or wives became the equivalent of ten units of meat or furs.

However, as society progressed, not every member of the tribe hunted. Presumably the business instincts of certain individuals became manifested at a very early stage. While some did the hunting necessary to create "surpluses" of meat and clothes, others industriously created "surpluses" of weapons, and so a measure of specialization began to appear. A commercially minded member of the tribe probably undertook to dispose of the various "surpluses." He became a central clearing-house, so to speak, collecting "surplus" items and redistributing them—possibly touring the neighbourhood in so doing, and then exposing the result for further exchange in a primitive market or bazaar, and, incidentally, retaining some of the meat or clothes as payment for his services—i.e. his profit or commission.

But the prehistoric merchant no doubt soon discovered that "surpluses" often present difficulties. If everyone had a "surplus" of meat, nobody would want to take any from him. Or if for some reason the industrious had not been able to make weapons to exchange for meat, then, no matter how great the quantity of meat available, he would be unable to dispose of it. So when there was a large "surplus" or a "glut" of any article, the wise prehistoric merchant either concealed the fact, or else he stored a proportion away against the time when there would be no "surplus," i.e. when a shortage arose.

This same fundamental principle as applied to primitive distribution also applies to the problems of distribution to-day, although the intricacies of the modern social structure have obscured the issue and complicated it to an extent that is almost bizarre. But the problem is identical—that of "surpluses" and their disposal.

## PRIMITIVE SPECIALIZATION

For the moment, we will still keep to our study of production and distribution under primitive conditions. It is instructive and helpful because the processes are then seen in their simplest form. As with modern society, so in pre-historic times, all men were not endowed with the same natural aptitudes. As the social structure of the tribe became more complex, these individual differences would become more and more apparent. To one group would be assigned the task of making weapons, another the duty of hunting, another to tend the production of vegetables; to the women would be assigned the responsibility of attending to the communal livestock, or making garments, and so on. If all this proceeded in a balanced fashion, the tribe would be completely self-contained and self-supporting. Note the parallel with the State which aims to be self-contained!

Yet however well intentioned the acts of primitive man, it must have happened that one section of a group became more expert than their fellows at certain activities, or else the natural resources of their particular camping-ground favoured one activity rather than another, so probably even primitive man found it difficult to be self-contained. The balance of the tribe's living could be maintained more easily if they exchanged the "surplus," created by their expertness in certain directions for the different "surplus" of a neighbouring tribe, created as the result of expertness in other directions. Thus was the distribution process started in a more complex form. On the other hand, if part of the tribe had no "surplus" to exchange, and their living was unbalanced to the extent of their needing and coveting the "surplus" of their neighbours, the have-nots either did their best to steal what they wanted by organizing a raiding party, or else started an inter-tribal war to obtain it, if they believed themselves strong enough to emerge as the victors.

## THE MONETARY SYSTEM AND "SURPLUSES"

The question of when man became civilized has little bearing upon the evolution of distribution processes. Enough already has been written to establish that distribution, whether in prehistoric or modern times, is essentially a process of balancing a "surplus" of one commodity against a shortage of it elsewhere, through the medium of exchanging "surpluses" of other commodities—or in other words, a levelling-out of the means of fulfilling human needs. When the system became too complex, and involved too many "surpluses" for mere barter to be able to carry out this levelling process, tokens were introduced, which we now know as money. Thus, from the earliest times, money has always represented goods, and can never represent anything else.

It might appear that in modern times the system of distribution became too complex for gold money to level out surpluses, and so paper has come to be substituted instead. Facts indicate that this, too, has not had all the anticipated results; more recently, experiments have been based on the principle of reverting to barter through export clearing-houses. The advanced economist might consider this a retrograde step, and express the view that a further, more enlightened evolution of the "token" or money system will prove the most effective means of facilitating the distribution of "surpluses." Nevertheless, before the problems of distributing "surpluses" can be solved between nations, much thought also must be given to that of distributing the "surpluses" in individual countries.

## TRANSPORT AND THE DISTRIBUTION OF "SURPLUSES"

It is not often recognized that changes in the methods of transport have had just as important an influence upon

distribution procedures as have the improvements in manufacturing procedure, which culminated in mass production technique. If transport had not been improved coincidentally with the transition from home to factory production, the modern factory would be producing vast quantities of goods, which might well be rotting through the lack of a means of distributing them. Enormous surpluses would be created in isolated areas, and a great part of these would have to remain at the point of production.

The Industrial Revolution produced not only the Spinning Jenny and the Flying Shuttle, but it also produced the steam-engine and the canal system. Although the British Broadcasting Corporation gives information on fat-stock prices and other market information, the effects of wireless, telephone, and modern methods of transport upon the problem of distribution are not yet fully apparent, and probably will not be for at least a century; but they also are factors which must have their influence in the same degree.

### **DISTRIBUTION UNDER THE DOMESTIC SYSTEM IN ENGLAND**

The so-called Domestic System in Industry, such as persisted until that great social upheaval which we call the Industrial Revolution in England, did not differ greatly in essentials from the tribal system of production already described. It was merely a specialized refinement. The "surpluses" of goods created under the Domestic System were typically local in character. The work was done in the home and either disposed of to neighbours or to travelling merchants, who, in their turn, sold what they collected to other customers upon whom they called, or else in markets, bazaars, or shops. More or less infrequently, goods were transported by road—very laboriously—from one distant part of the country to another by merchants, and still

more infrequently to and from other countries. Inadequate transport facilities on land and sea were the main cause. So under the Domestic System in Industry there were typically localized shortages and surpluses of specific commodities. These were difficult to remedy, because of transport limitations. If transport had been available, the leveling-out would have been easier. But the surplus or shortage was local, and all in the vicinity, rich or poor, suffered more or less equally. If a drought killed off all the sheep, the lord of the manor and his vassal had to do without mutton to much the same extent. The shortage applied to all in the vicinity, unless milord was fortunate enough to have someone available to bring him his joint from other parts where there was a surplus.

In certain isolated districts, the Domestic System of production still obtains. For example, Harris tweed is still produced in the Orkney Islands under conditions almost analogous to the Domestic System, and until the marketing of this commodity was put on a more co-ordinated basis very recently, the "surplus" problem was a most acute one to the islanders. So the Industrial Revolution, with its transfer of productive activity from the home to the factory, and with its enormous increase in productive capacity, cannot entirely be blamed for what has been termed the breakdown in the present system of distribution.

## DISTRIBUTION SUBSEQUENT TO THE INDUSTRIAL REVOLUTION

With the Industrial Revolution there ensued, as already has been noted, an enormous increase in productive potential. Unfortunately, statistics do not exist to show the productive capacity for various commodities during the period, say, fifty years prior to the Industrial Revolution, and during the period fifty years subsequent to it. But after the

Industrial Revolution, the following factors commenced to operate—

1. *An increase in population*, thereby creating the means for disposing of the “surpluses” created.
2. *Improvements in transport*, thus enabling the “surpluses” to be distributed more widely.
3. *Radical changes in distribution methods as such*, i.e. selling, and later advertising, etc., necessitated by the need to distribute the “surplus.”

It was probably immediately subsequent to the Industrial Revolution that the tendency for the English to become a nation of shopkeepers was most pronounced. But the principle of “dog eating dog” could not apply in perpetuity. Britain was predominant as a maritime country. The surplus in the home market was too great to be absorbed locally, even with the facilities provided by improved local transport. With the ships in which to carry the goods, the whole world was available for disposing of surplus production. The surplus from Manchester and Birmingham could be made available to level out shortages in China and India, in Canada and Brazil, in Africa and Australia. In return, surpluses in these far-off countries could be utilized to fill gaps in the needs of the homeland. From a nation of shopkeepers at home, the British became a nation of shopkeepers abroad. The African native wore loincloths made in Manchester, and the Manchester weaver drank cocoa from Africa.

So far as the African native and the Manchester weaver and all those in similar circumstances were concerned, this system operated admirably for almost a century. One surplus supplied another shortage, and no special technique other than adequate transport was essential. Each needed what the other had, and since the transport facilities, as well as the production facilities of nations other than Britain, had not in general been developed very greatly, all was well.

However, by the beginning of the twentieth century, disquieting symptoms began to appear—

1. Other nations had begun to create surpluses. By improving transport and production facilities, these also became available for disposal.

2. Countries which hitherto had been markets for the disposal of surpluses of certain commodities, themselves began to produce the same commodities, and often even to create surpluses of them. Japan commenced to weave her own cotton, the United States to make her own china, and the Dominions likewise.

The results were—

1. A race to dispose of surpluses in contracting markets.

2. The raising of customs barriers to prevent the dumping of surpluses by countries which hitherto had absorbed them, and were now themselves producing surpluses of the same commodities.

3. A piling-up of surpluses of certain commodities.

The effect was a complete lack of balance in the whole distribution scheme. With the piling-up of surpluses the money which they represented became "frozen," and the levelling process became obstructed by the lack of money for exchange purposes.

The issue was obscured by the intervention of the Great War; but subsequently the evils became even more accentuated, until almost every country had placed restrictions of one kind or another either as quotas, tariffs, or outright prohibition, to prevent the surplus from other countries entering its ports. The consequent shortage of liquid money, "credit," or "exchange" had prevented shortages or surpluses in other commodities from being levelled out, and so the result was that wheat was burnt in America while children were crying for bread in Germany.

## EFFECTS OF INTERNATIONAL RELATIONS UPON DISTRIBUTION

The complexities of the problem of the international distribution of surpluses constitute a subject more for the economist or the expert on trade between nations than for the student of practical distribution, whose main concern it is to discover how best to sell the produce of his own farm or factory. The topic has been dealt with at great length by politicians and others, though still superficially, because the disposal of one nation's surplus to another has vital repercussions on the home market. Because Germany decides to catch her own herrings and not to import them, trade is lost to the Scottish fisher, or, in other words, a source is closed for disposing of his surplus of herrings. If he cannot dispose of them, he has plenty of herrings but no money to buy bread and clothes. If he is not in a position to buy, his baker and his tailor cannot dispose of their surplus to him, while the persons who had hoped to dispose of their surplus of some other commodity cannot do so to the herring fisher's baker or tailor—and so the whole process of distribution is impeded.

Thus the home market, instead of being a simple problem for the producer, becomes most complex. If the export market cannot provide a safety valve, as it did prior to the beginning of the twentieth century, then the home market becomes one in which more surplus is available than there are people, or the proceeds from other surpluses (i.e. money) to buy it. In practical terms, the home market becomes a competitive and contracting one.

To succeed in disposing of a surplus of production in a competitive market demands—

1. The distribution of goods at such a low price basis that people are able and willing to buy. This may mean bankruptcy for those embarking on such a policy.

2. The locating of markets which will give the best return, and the scientific study and cultivation of these markets.

Those productive units which desire to continue in being must operate on the second basis, and it was along these lines that distribution procedure first commenced to develop early in the present century.

### **DISTRIBUTION AT THE BEGINNING OF THE TWENTIETH CENTURY**

Early in the twentieth century, Taylor and others had laid down their principles of scientific production control. But no such principles were enunciated at this stage concerning distribution processes. There had been no reason to do so. Hitherto, it had been comparatively easy to dispose of surpluses. Another reason was that production processes have to do with machines, and the output of machines can be measured. The more mechanical a production process, the more accurately it can be controlled and measured. The human factor as represented by the operative is important only in so far as he is physically and mentally equipped to operate his machine. If the production operation is completely mechanical, even the human factor ceases to be important, so long as the machine is maintained properly. Under many conditions of modern production, output has become very largely a matter of the efficiency of the producing unit, as represented by the machine, the effectiveness of operating routine, and the availability of raw materials.

But the object of distribution is to cater for human needs, either present or potential, and the human factor becomes an important consideration at the final stage of distribution as represented by the individual consumer. Since the human factor is involved to such an extent, prediction and measurement are difficult, and in the early years of the

century these were considered so difficult as to be impossible on a purely scientific and statistical basis. Statisticians, sociologists, and economists there were in plenty at the beginning of the century, but none was willing to apply his wisdom to the reduction of the problem of distribution to a scientific formula. Marketing, selling, and publicity were regarded as having an inspirational and not a scientific basis. The producer produced his commodity—it was a matter for individual intuition or judgment, and not for science, how it was to be disposed of. This was a true reflex of the method of disposing of surpluses under primitive conditions, and under the domestic system. The producer knew from personal experience who would take his surplus. But increasingly stringent conditions, the increasing complexity of markets, demanded more than this. By the beginning of the twentieth century the producer could not afford merely to produce his goods and hope to sell them. But for a while he did do so, nevertheless.

However, even so, a distribution structure was gradually built up, not on scientific lines, but through sheer force of circumstances. It had many weak links, which the passing of years has exposed, one after another, until to-day we may, at least to some extent, flatter ourselves that we are nearing an era of scientific distribution.

The earliest stages in the distribution structure were when the proprietor of the business, or members of his family, decided what goods were to be produced, at what prices, and in what quantities, then he sallied forth to sell them, often himself delivering them to his customers. This was little different from the situation under the Domestic System. The principle was to produce on the assumption that a consumer would be found somewhere who would be willing to buy the result. Actually this procedure is analogous to pouring out a liquid without a measure. Yet this method

persisted until the war in 1914, and even afterwards. Under it, successful businesses were built up through the keen judgment of one individual, but invariably these have now ceased to exist, in some cases partly as the result of the errors and lack of judgment of the original founder's successors, and partly because the reasoning behind the distribution process was *forward* from production to the assumption that a consumer for the goods would be found. The history of these individually developed businesses of the late nineteenth and early twentieth centuries is remarkable. Few have continued under the management of the third generation, but have either disappeared, or become absorbed by public companies, with salaried executives. The early twentieth century was an era of hit-or-miss management and hit-or-miss distribution, often effective, but with increasing competition failing to be continuously so.

If the privately owned business expanded so that the proprietor or his family were unable or unwilling personally to attend to distribution, then the tendency was to find a merchant or agent who either bought the output and disposed of it at his own price, or who was remunerated for his services on a commission basis. To assist him in disposing of these commodities, to let consumers know he had certain types of goods available, the merchant or agent might have employed advertising to a limited extent. But his advertising went no farther than telling people he had the goods. They were expected to make their selection and buy from what was offered to them.

If the proprietor was not inclined to trust a merchant to represent his interests, he employed travelling salesmen, who, like the merchant, were remunerated either by salary or commission. But the principle was still that the factory produced something for which a consumer was assumed to exist. If what was produced was rejected by one consumer,

then another was assumed to be available somewhere who would be only too glad to take it.

This system worked reasonably well (although not on what might now be considered an economic basis), while conditions facilitated a balancing of "surpluses" against "shortages," and especially when the "surplus" was not adequate to fulfil all the "shortages," i.e. while production was in excess of demand. But, subsequent to the Great War, "surpluses" began to exceed shortages—production greatly to exceed demand—or, as the economist would say, markets commenced to contract. For example, America no longer required tableware from the Potteries in Staffordshire, because she was making her own. To a surplus of bacon from English farmers was added a Danish surplus sent into England by the Danish farmers, and so on. Thus the equilibrium of distribution was completely upset. The irrationality of viewing the distribution process *forward*—of assuming that a consumer must exist—was revealed. Businesses which continued to operate on such a basis found themselves faced with bankruptcy, especially the "family" type of business where the mingling of the proprietorial with executive interests did not help matters, and made sentiment and not reason the determining factor in any changes introduced to meet the new conditions.

## THE ERA OF SCIENTIFIC MARKETING AND DISTRIBUTION

In the early post-war years the more astute executives, and those who were not blinded by a false pride in the dignity of their businesses—as the proprietors of family businesses often were—quickly realized that the distribution must not be *forward* but *backward*. Instead of assuming the existence of a consumer for their product, they decided that the logical procedure was to investigate whether he did exist,

and, if so, where he was located, in what numbers, what was his capacity for absorbing goods, how much he could afford to pay for them, what were his needs, how conscious of them he was, and so on. According to the results of this investigation, so was production regulated. It was only when this stage in distribution thought was reached that the era of "scientific" distribution began—an era of assessing in concrete terms market potentialities, and then adapting production accordingly. Distribution requirements became the master of production, and not production requirements the master of distribution. From being simple announcements that goods were available, advertising developed a highly skilled technique of educating people as to what their needs really were. Distribution became more than a matter of making produced commodities available. It became organized into five aspects—

**Marketing**, or the determination of what products with what characteristics consumers want, or can be persuaded to want, and in what quantities they are likely to want them, i.e. the laying-down of the basis for the production programme.

**Advertising** (propaganda), or the method of educating people to the point of realizing that they need a specific commodity and so creating in them such a mental state that they are receptive to persuasion to buy it.

**Transport and Warehousing**, or the means by which a continuously adequate supply of the commodity can be made available at the most economic cost to those people determined by investigation as logical consumers.

**Selling**, or the direct procedure of persuading people to buy, possibly subject to a favourable attitude already having been created in their minds by advertising and propaganda.

**Control**, or the setting of standards against which the

effectiveness of the various aspects of the distribution process can be judged, e.g. market potentials as criteria of selling effectiveness, cost ratios as standards for effective use of expenditure, etc.

With the advent of the era of scientific distribution and the concomitant trend to study and evaluate every aspect of the distribution process, it was inevitable that, in due course, gross ills in the system should become apparent. For example, the uneconomic effects of competition were revealed. The result was that, towards the end of the second decade of the twentieth century, remedies for these were sought in a variety of ways. Sometimes it was decided that State intervention was necessary. Under the blessing of the State, Marketing Boards were established to regulate and co-ordinate the distribution of certain agricultural produce. In other instances industries were "rationalized" by one company absorbing others in the same industry, so eliminating redundant effort. In other cases, trade associations were formed to set quotas and regulate the trading activities of their members. Many industries still remain unco-ordinated, and operating on a wasteful basis. Often it will be found that it is these which are in the most depressed condition to-day, and which are most sensitive to economic and other repercussions, resulting from international rivalries of various kinds.

#### DIAGRAMS ILLUSTRATING THE PROCESSES OF LEVELLING SURPLUSES AGAINST SHORTAGES AT VARIOUS STAGES OF SOCIAL DEVELOPMENT

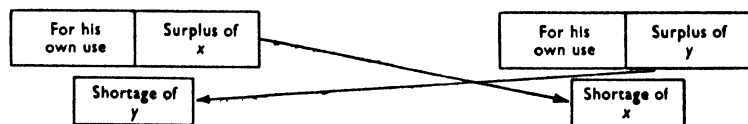
##### I. DISTRIBUTION UNDER PRIMITIVE CONDITIONS (BARTER)

*Individual A*

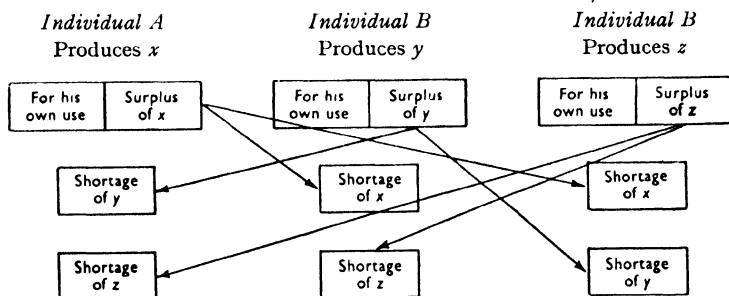
Produces  $x$

*Individual B*

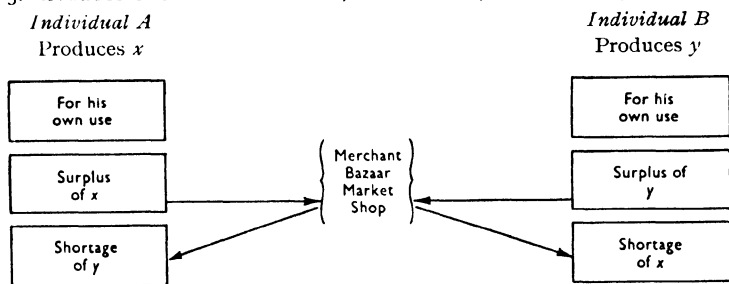
Produces  $y$



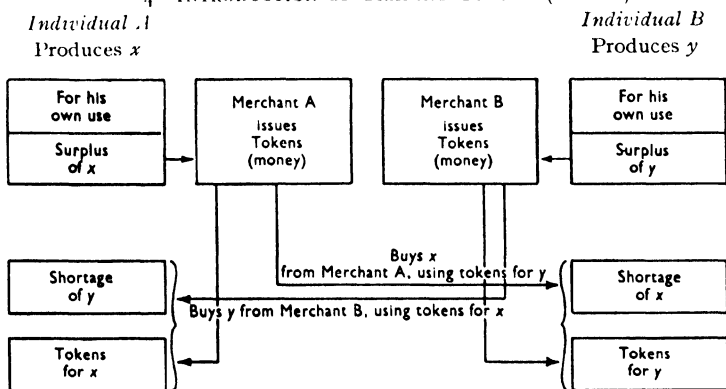
2. DISTRIBUTION UNDER PRIMITIVE CONDITIONS, BUT WITH SOME MEASURE OF SPECIALIZATION. (EQUIVALENT TO THE LATER DOMESTIC SYSTEM ACCOMPANIED BY BARTER)



3. EVOLUTION OF THE MERCHANT, THE BAZAAR, THE MARKET, THE SHOP



4. INTRODUCTION OF TRADING TOKENS (MONEY)



## CHAPTER II

### DISTRIBUTION AND THE STATE

AN example of state intervention in the woollen industry—The reasons for state intervention—The principles underlying the establishment of Marketing Boards in Great Britain—Marketing schemes in operation and sponsored by the State—Methods of operating marketing schemes—State control of manufactured commodities—State intervention in industry in the U.S.A.—Examples of recent state intervention in Great Britain.

TRADITIONALLY, and for a wide variety of reasons, the State, whether primitive or enlightened, whether organized on a tribal, communal, autocratic, democratic, or totalitarian basis, has concerned itself in varying degrees with both productive and distributive activities. The State most frequently and generally has arrogated to itself control of currency, which is the basis of distributive processes. It is obvious and right that the State should exercise supervision over certain activities having a direct bearing on the welfare of its members, such as the sale of dangerous drugs and firearms. Often, however, what constitutes, and is most likely to contribute to, the welfare of the members of a State has been interpreted very largely according to the political beliefs of its rulers. The American "New Deal," the Douglas Theory of Social Credits, the socialization of distribution, the imposition of protective tariffs, the setting of import quotas, all represent expressions of particular political theories rather than the application of scientific method to the problems of distribution. Even less worthy motives may determine State intervention. The exchequer may be low, and direct taxation may represent a simple way out of the difficulty; hence sales taxes are favoured in some countries, or the State either takes over monopolies

of certain commodities as its own privilege, or else sells them to the highest bidder.

## AN EXAMPLE OF STATE INTERVENTION IN THE WOOLLEN INDUSTRY

As an example of how the State may interest itself in a specific industry, the woollen trade in Great Britain might be quoted. The history of the woollen trade, and how from time to time the State has sought to control it, is typical of many long-established industries.

### PHASES OF STATE INTERVENTION IN THE BRITISH WOOLLEN INDUSTRY

- 712-27. Saxon King Ina ordained that the value of a ewe with her lamb should be 1s. until after Easter.
- 1196. Richard I appointed the width of broadcloth as two ells between lists.
- 1198. London Merchants paid to Richard I's Chamberlain £13 11s. as fines for leave to export wool.
- 1261. Act prohibiting export of wool.
- 1275. A grant of 6s. 8d. on each sack of wool exported found the expenses for Edward I's invasion of Wales.
- 1340. Edward III imposed duty of 40s. per pack on wool exported.
- 1352. "All clothes vendible shall be measured by the King's Aulnager or his deputy"; and "All clothes of his measure by a yard than of the assize appointed by the statute. . . to be forfeited and arrested to the King. . . and delivered to the King's wardrobe."
- 1363. Working people forbidden by law to wear any cloth but blanket and russet at 1s. a yard.
- 1489. Maximum price finest Scarlet cloth fixed at 16s. a yard.
- 1555. Weaver's Act passed to prohibit clothiers having more than one loom in their houses and weavers from having two.
- 1660. Export of British wool prohibited.
- 1666. Charles II passed an act designed to help the woollen industry at the expense of the linen industry by providing that the dead should be buried in woollen.
- 1735. The "Manchester Act" prohibiting the use and wear of all printed, painted, stained, or dyed calicoes so far as related to goods made of linen yarn and cotton manufactured in Great Britain.

- 1787. Prohibitive tariff of 37s. 5d. per yard imposed on woollen cloth imported into Britain.
- 1825. Tariff on foreign wool of 1s. per pound and upwards reduced to 1d. Colonial wool added to free list.
- 1916. Government purchase of British, Australian and New Zealand clips.
- 1917. Government monopoly of wool established in Great Britain.
- 1919. Government abandon purchase of British clips.
- 1920. Government purchase of Australasian clips.
- 1921. Formation of the British-Australian Wool Realization Association.
- 1923. B.A.W.R.A. surplus of merinos exhausted.
- 1924. B.A.W.R.A. sold its last bale in May.
- 1929. Government decline to put into operation Worsted Committee's recommendation in favour of duties.
- 1931. Duties of 50 per cent on yarns and tissues.
- 1932. Duties reduced to 20 per cent on piece goods and 10 per cent on yarns.
- 1937. New combing tariff introduced on 31st August.

## THE REASONS FOR STATE INTERVENTION

The reasons for State intervention in industry are many and varied. Broadly, they may be summarized as follows—

1. *To augment a depleted exchequer.* Under certain circumstances, the State has assumed virtual control of various industries, which have proved profitable to those operating them.

The best-known examples are the match monopolies existing in certain Continental countries, or the tobacco monopoly in Turkey. In some cases, the State has assumed control, not only of productive, but also certain of the distributive activities, the profits being paid into the revenue. When a State monopoly exists, the State does not, for obvious reasons, enter into competition with private enterprise.

2. *To reduce prices to the consumer by competing with private enterprise.* Under certain circumstances, the State may decide that private enterprise is obtaining too great

margins of profit from the consumer. Not having the courage or the financial resources to make the industry in question a State monopoly, the State may commence to operate in competition with private enterprise. After the Great War, for example, the Australian State of New South Wales organized State Fisheries, Bakeries, and Brickworks, in competition with established private enterprise. Such businesses were completely controlled by the State, along the whole line from production to distribution to the consumer. The theory was that this should have had the effect of reducing prices; but the ultimate result in all cases was a considerable financial loss, which the taxpayer had to bear.

3. *To provide services which private enterprise does not consider sufficiently remunerative to justify capital outlay.* Transport services might be taken as an example. Transport, operated as a private business which seeks to make a profit, obviously cannot contemplate expenditure of capital which the returns might not justify. Thus transport companies will tend to service areas already developed, so that returns will be immediate, and will tend to avoid servicing areas requiring development. Here State intervention definitely may be advantageous if a long view is taken.

In industry, State intervention to assist enterprises which are unable to prosper on their own initiative or which are non-profit-making and developmental, may take the form of subsidies or the equivalent of protective tariffs.

4. *To put into effect a political theory that the State should control everything and that all its members should benefit.* This is the basis of the Communist or Fascist State, which would provide that there should be no independent private enterprise of any kind.

5. *To co-ordinate industry and secure lower prices*

*through rationalization.* Competition frequently proves wasteful, and if individual industries cannot agree among themselves that rationalization is essential, then to prevent collapse, the State may be compelled to intervene, either in an active or in an advisory capacity. It is largely this principle which has led to the establishment of Marketing Boards in England, to regulate the production and distribution of agricultural products. In other industries, such as cotton and shipping, the State has intervened in an advisory capacity.

### THE PRINCIPLES UNDERLYING THE ESTABLISHMENT OF MARKETING BOARDS IN GREAT BRITAIN

The establishment of Marketing Boards in Great Britain has happily been free from the taint of political theory. A considerable amount of extremely lucid, impartial, and enlightened thought has been devoted to examination of the relevant facts and the formulation of carefully considered conclusions, before the structure of the appropriate distribution organization has been determined. Finally, by Act of Parliament, the whole has had to be approved by a majority of the producers in the specific industry concerned before any decision to act can be taken.

The serious student of distribution would be wise to read carefully the reports of the various commissions of inquiry set up to make these preliminary investigations and whose findings have been published by His Majesty's Stationery Office. The industrialist the stability of whose business is threatened by existing conditions, would do well to do likewise. It is typical of the lack of co-ordination in the study of distribution that the contents of these publications are not more widely known.

From the viewpoint of the consumer, the basic principle of competition is that he should be able to select from the

output of various producers those articles most suited to his needs, purchase them at the lowest price, and obtain the most efficient service in connexion with them.

As a commentary on this principle, an extract from "A Report by the Food Council to the President of the Board of Trade on Costs and Profits of Retail Milk Distribution in Great Britain," is of especial interest. Discussing the position existing at the time of the investigation (September, 1937), the report stated—

"It is evident that the overlapping which is inherent in the retail milk distributive industry is responsible for much duplication of effort, and in consequence for much expenditure that is uneconomic. Speaking in general terms, two things are especially desirable from the point of view of reducing working costs, and, in consequence, covering the retail price of milk: first, a reduction in the number of distributors; secondly, a rearrangement of trade as between one distributor and another."

Earlier (1933) the Grigg Commission and the Committee of Investigation (1936) made similar comments in respect of the milk industry, summarizing their criticism as being that—

1. In most places there is an unnecessarily large number of distributors. The committee of investigation quoted examples of over twenty distributors operating in one street.
2. Where there are at present two deliveries of pasteurized milk a day, one only should be sufficient.
3. If the one-delivery-per-day system were introduced, the need for half-pint bottles would be reduced, with consequent material reduction in costs.
4. Expenditure on advertising is uneconomic in so far as it is incurred with the primary object of persuading consumers to transfer their custom from one distributor to another.

On the basis of these findings, a very real case was made apparent for the institution of procedures to regulate the distribution of milk.

In general, very much the same considerations apply to most agricultural products. The difficulty and distinction as between them and manufactured commodities is that, while *over-production* can be regulated and eliminated in both cases, with agricultural products *under-production* is determined by natural causes beyond control. Thus the problems become—

1. To regulate over-production, either by restriction or by utilizing excess production for additional and new purposes.

2. To provide against shortage periods by adequately storing supplies from excess periods.

In 1933 the Grigg Commission<sup>1</sup> defined the main objects of the reorganization of the milk industry as being—

1. "The strengthening of the position of the producers by enabling them to negotiate as a solid body. . . and by ensuring that negotiated agreements are universally observed.

2. The prevention of undercutting of the liquid market and the provision of satisfactory arrangements for the sale of milk for manufacture. . .

3. The improvement of the quality of milk supplies.

4. The stimulating of the demand for milk for liquid consumption.

5. The recognition of the service rendered by producers who cater primarily for the liquid milk market.

6. The development of the manufacture of milk products.

7. The co-ordination of the efforts of all concerned—producers, distributors, and manufacturers—to secure prosperity of the whole milk industry of the country, but with adequate safeguards for the interests of the consuming public."

More or less identical basic objectives were sought in connexion with the other agricultural industries for which marketing schemes have been established.

<sup>1</sup> *Report of Reorganization Commission for Milk for England and Wales.* (Economic Series No. 38.)

### MARKETING SCHEMES IN OPERATION AND SPONSORED BY THE STATE

Complete details of agricultural marketing schemes in operation are outlined in the *Report on Agricultural Marketing Schemes for the year 1936*. The following were in operation in 1936.

Scheme	Date of Approval	No. of Registered Producers Concerned (1936)	Area of Scheme
Hops Marketing Scheme . . .	1932	990	England and Wales
Scottish Milk Marketing Scheme .	1933	7,929	Scotland, South of Grampians
Milk Marketing Scheme . . .	1933	148,046	England and Wales
Aberdeen and District Milk Marketing Scheme .	1934	822	Aberdeen and Kincardine
North of Scotland Milk Marketing Scheme	1934	359	Inverness, Nairn, Ross and Cromarty, Sutherland, and Caithness
Pigs Marketing Scheme . . .	1933	145,644	Great Britain
Bacon Marketing Scheme . . .	1933	618	Great Britain
Potato Marketing Scheme . . .	1933	64,202	Great Britain

Other additional schemes exist, of which details are not yet fully available, or which have had to be delayed pending further inquiry or modification.

## METHODS OF OPERATING MARKETING SCHEMES

The Agricultural Marketing Act became operative in 1931 and made it possible for the producers of any agricultural product to devise a scheme for marketing it, and at the same time provided that if the scheme was adopted by a prescribed majority of producers and subsequently approved by Parliament, then it should be binding upon all producers of the product. Further, the administration of the scheme was to be in the hands of a board "representative of, and elected by, the producers." Thus it was basically left to the producers to determine the nature of the scheme. An exception to this procedure, introducing a wider principle of State control, has been in the case of the bacon industry, where the fact of the home trade having been dominated by large quantities of imported bacon has made it impossible of regulation without some measure of control by the State over imports. In this case, a Committee of Inquiry advocated that His Majesty's Government should "be responsible for the distribution of quotas among the various countries concerned, and for the administration of the system as a whole," i.e. for direct State restriction of imports.

The broad method of operation of all the agricultural marketing schemes which have been instituted is more or less the same in principle, and proceeds through the following stages—

1. The determination and allocation of quotas.
2. The administration of quotas.
3. The negotiation of contracts.
4. The administration of contracts and the distribution of the products to the market in the most economic way.
5. The elaboration of plans for developing the industry, including methods of disposing of surplus production.
6. The execution of these plans.

7. The institution of "efficiency services" such as setting standards of quality, size, providing market intelligence.

The effective operation of any quota system must be dependent upon—

1. The estimating of the total demand for the product during an ensuing period, usually a year. This usually is made by the appropriate Marketing Board.

2. The relating of this total demand to each individual producer, and so fixing his quota for the period and the allocation of contracts on this basis.

3. The protection of the consumer from exploitation by price regulation.

4. The prevention of evasion of quotas by inspection of producers' books.

5. The provision of penalties (if necessary) for default against quota. Either under- or over-production will seriously disturb the balance of supplies. Under some agricultural marketing schemes the penalties are severe, e.g. the Potato and Bacon Schemes.

The income of the various Marketing Boards is made up of receipts from—

1. The sales of the product in its "normal" market.

2. The sales of quantities of the product in excess of the requirements of (1) at low or "assisted" prices, e.g. to schools in the case of milk.

3. The sales of quantities of the product in excess of the requirements of (1) and (2) for manufacture, i.e. distribution in forms other than the normal ones.

4. State grants or subsidies made for developmental purposes or to encourage the greater consumption of the product.

This income (after deduction for the expenses of administering the scheme) is usually distributed to registered producers in proportion to the values of their quotas, and any

residue remaining after the quotas have been paid for is distributed to those who have supplies in excess of their quotas for the season (where excesses are permissible) in proportion to the value of the excess production. Thus, in theory, at least, at the end of each season the respective boards should have made neither a profit nor a loss.

### **STATE CONTROL OF MANUFACTURED COMMODITIES**

To quote two examples only, the outcry during 1938 against the regulation of Sunday trading, and also against the proposal by the Milk Marketing Board that London milk distribution should be rationalized under the control of a single organization, are indications that the regulation of private enterprise by Governmental authorities has as yet not been generally accepted in Great Britain. Especially does this apply to the distribution of manufactured commodities where private enterprise is jealous of its independence, and the feeling is prevalent that free competition is the only condition under which business can be conducted to the satisfaction of all concerned.

In the so-called totalitarian States, very different conditions prevail. In Japan, for example, the State has full powers to restrict dividends, to requisition supplies of raw material or finished goods, and to establish plans covering various products under the aegis of a National Planning Board. Such methods of control inevitably affect the availability of foreign exchange, imports, and the allocation of raw materials.

In Germany there still exist private businesses ; but though independent in theory, the State controls prices and the allocation of raw materials, and may commandeer output. In other words, the system is that of a State-controlled economy, influenced by ideological concepts.

The distinction between the German and the Russian theory of State control of private enterprise is that the Russian system controls in the interests of a class, while the present German system aims at control in the interests of a race.

### STATE INTERVENTION IN INDUSTRY IN THE U.S.A.

During the American National Recovery Administration (1933-5), codes of ethics were drawn up for individual industries. These listed trade practices condemned as unethical, especially with regard to—

1. Price discrimination, i.e. producers selling at different prices to firms in competition with each other, or selling at the same price to customers who buy different quantities or require different services.
2. Selling below cost, either knowingly or through ignorance.
3. Unwise pricing policies, such as extended credit, holding goods in storage longer than customary, packing in specially expensive containers.
4. Illegitimate returns, i.e. sale or return terms accepting returns because of unwise buying, etc.
5. Deception as to quality, e.g. weighting silks by adding metal salts in finishing to give them more body, selling rayon or part rayon as silk, selling cotton and wool mixtures as all-wool cloths, etc.
6. Style piracy.

In America the Federal Trade Commission is the principal Governmental function controlling industry, and operates under the Clayton Act, the Federal Trade Commission Act (1914), the Robinson-Patman Act (1936), and the Wheeler-Lea Act, (1938).

The Federal Trade Commission established under the Acts of 1914 at first was aimed mainly to prohibit monopolies.

It became largely inoperative, due to the fact that its members lacked the technical knowledge to handle complicated questions of business policy. During its later stages, it drew up, in co-operation with members of "Trade Practice Conferences," codes of ethics which, when approved by groups representative of the industries concerned, were promulgated by the Commission. These conferences were abandoned in 1929 when President Hoover took office, but provided a basis for the N.R.A. codes, drawn up by the National Recovery Administration. Actually, nearly six hundred codes were instituted; but these came to an end in 1935, when the United States Supreme Court declared the National Industrial Recovery Act unconstitutional.

Since 1935, control has reverted to the Federal Trade Commission, whose powers were broadened in 1936 by the Robinson-Patman Act and the Wheeler-Lea Act. These enabled the commission to control unfair competition, especially as affecting the consumer. Selling below cost is controlled in most States of the Federation by Fair Trade Acts, permitting producers to enter into agreements with distributors as to the fixing of the prices at which they shall sell. These actually are binding on all distributors who are notified of their existence, whether they sign the agreements or not.

### **EXAMPLES OF RECENT STATE INTERVENTION IN GREAT BRITAIN**

It is not for the impartial student to formulate views as to the relative merits of any one system of controlling industrial activity. Provided control by the State is properly exercised, the maximum degree of co-ordination in distribution will tend to be achieved by this means, for the reason that, in theory, it is rationalization brought to its highest perfection. But against this must be considered whether

State control ever can be entirely segregated from politics, and whether the individual operating as a servant of the State can be expected to function as impartially, zealously, or as creatively as the individual employed by private enterprise who is stimulated by a desire to progress under conditions of intense competition from those around him.

It would be incorrect to say that private enterprise in Great Britain is not to some extent limited by the State. The philosophy is developing that the State should intervene when an industry is threatened with extinction, but then only at the request of those concerned. The British Government has intervened in some industries to the extent of granting either subsidies or loans. The transfer of industries to distressed areas is one case in point. The granting of aid to the shipbuilding industry is another. However, it is logical to assume that, before granting aid, the State should be desirous of being assured that its assistance will be put to good use, and not wasted. So, and probably rightly, the Government imposes qualifications on both the productive and distributive aspects of the industries it assists, in much the same way as a banker may be expected to act.

Another type of Government control occurs when the State is a purchaser of commodities. A noteworthy instance is that of Post Office equipment. Ten years ago, several rival systems of operation existed in Post Office telephone exchanges. These varied according to the supplier concerned. Post Office contractors competed wastefully with each other. The result was excessive costs both in production and selling. Within the last five years a system of standardization, forward planning, and quotas has been instituted, sponsored by the Telephone Section of the Post Office. The result has been a greater degree of co-ordination and a consequent reduction in wasteful competitive activity. It has been estimated that the saving to the Post Office

in the cost of telephone equipment resultant from this standardization has been more than 10 per cent.

But Governmental control in Great Britain has not **always been the outcome of a desire to achieve co-ordination.** The production and distribution of alcoholic liquor is rigidly controlled by a system of licence—although in the case of public houses the final say is with the local residents, who may express their views by a referendum. Here the object is not to secure more efficient co-ordination in distribution, and so reduce prices to the consumer or increase the profits of the producer; the aim is purely restrictive. The argument has been advanced that a similar system of licensing, whether under the control of Governmental authorities or the industry concerned, could be applied with advantage to all retailing. The purpose of this would be to restrict the number of outlets, so eliminating wasteful competition and reducing the number of shops which have no justification for their existence, and which must go bankrupt sooner or later.

The *Report to the Food Council on the Costs and Profits of Retail Milk Distribution* (1938) was an indication of the possibilities in this direction. But the reception given the proposal to rationalize milk distribution was an unmistakable indication of the opposition to be encountered in implementing any procedure designed to control, co-ordinate, and limit the competitive system of retail distribution.

The ultimate solution may be that the State should act as a co-ordinator, without executive authority as such, while corporations or committees constituted of producers and other representatives of the industry, and possibly consumers as well, should exercise the controlling function and legislate according to their particular views of current and future needs.

## CHAPTER III

### NON-STATE REGULATION OF DISTRIBUTION

**Co-ORDINATION in the agricultural industry through voluntary action by private associations—Co-ordination of the distribution of manufactured goods through private associations—Regulation of Distribution by individual manufacturers—The influence of the Co-operative movement.**

BEFORE political theory advanced to a stage when many schools of thought advocated complete State control of production and distribution, the individual members of certain specific industries had reached the conclusion that joint action was desirable to regulate trading conditions. The regulation of conditions governing labour was a first stage; the result was the formation of trade unions and employers' federations to watch the respective interests of labour and employer. From this point it was a logical step to the formation of associations concerned primarily with how commodities should be distributed and sold. As a more recent development, there has been the growth of consumers' associations, especially in America, with the object of preventing exploitation of the actual users of commodities.

It is significant to note that these associations were not formed spontaneously, or with any ideal motive of properly co-ordinating distribution. They were usually organized only when trading conditions became difficult. It is questionable whether, if trading conditions were always flourishing, associations formed for the purpose of co-ordinating distribution would come into existence. It is only when trading conditions are bad that there is sufficient stimulus to private enterprise to organize and co-ordinate. For this reason, it was perhaps inevitable that the earliest systematic efforts at co-ordination in most countries should have been in connexion with the agricultural industry.

## CO-ORDINATION IN THE AGRICULTURAL INDUSTRY THROUGH VOLUNTARY ACTION BY PRIVATE ASSOCIATIONS

A number of experiments—many of them successful—have been tried to co-ordinate the marketing of agricultural products by means of privately organized associations operating more or less on a co-operative basis. The chief function of many of these was to organize the assembly of supplies at the point of shipment, but not infrequently standards of quality and price also were voluntarily imposed.

Such associations were common in America, where, for example, the Hastings Potato Growers' Association was formed in 1922 and still exists. The Virginian Produce Exchange, with similar objectives, was established as early as 1900. Other similar associations were formed in Michigan, Minnesota, and Colorado. The United States Federal Farm Board has assisted in the organization of the National Fruit and Vegetable Exchange to co-ordinate the activities of these and other associations. Its principal object is to co-ordinate the sales services of its members and ensure the distribution of supplies in the most orderly fashion.

Canada also has its voluntary associations. The Quebec Federated Co-operative, to some extent under State guidance, acts as sales agent for the local associations.

Belgium has its Union of Farmers (Boerenbond) which is a centralized federation of local guilds. The Boerenbond has its sales office for the disposal of farm products.

In Germany, the production of certain agricultural products has been stimulated recently for reasons of national policy; but prior to the present regime, the affiliated societies of the National Union of German Agricultural

Co-operatives undertook to dispose of part of their members' output, the remainder being handled for distribution by the State Central Co-operatives. These co-operatives now have come directly under State control.

Similar associations of varying sizes were organized in Great Britain until central marketing boards were established. One of the most interesting was the society established in 1925 as a central marketing agency for hops, and known by the name of English Hop Growers Ltd. All growers were eligible as members, and were required to take shares in the society at the rate of 2s. an acre. The responsibility of the society was to grade, value, and sell the product. A proportion of growers who remained outside the Society benefited from the action of the Society in attempting to stabilize prices at remunerative levels, and, not being subject to control in respect of the quantities they sold in the market, had the advantage of being able to dispose of all their crops, while members of the Association had to bear the cost of holding their surplus back from the market. Actually, it became more profitable to remain outside the Society, and the position deteriorated, until, in 1929, the Society went into liquidation.

Subsequently, the industry remained in chaos until 1932, when the Hops Marketing Board, under the Agricultural Marketing Act, was set up with compulsory registration of all hops producers. This move had the effect of introducing co-ordination into the industry, and putting it on a stable basis.

### **CO-ORDINATION OF THE DISTRIBUTION OF MANUFACTURED GOODS THROUGH PRIVATE ASSOCIATIONS**

Most manufacturing industries proceed through three phases. The first is when the industry is in its infancy and

output is less than the requirements of the market. At this stage, private enterprise flourishes. The second is when output overtakes market requirements, and competition causes profits to be cut. Usually the industry then goes through a phase of non-profitable activity. Finally, either the large producers absorb the smaller ones, thus facilitating rationalization, or the producers, through associations, endeavour to eliminate wasteful competition. Outstanding examples of rationalization are the Unilever group of companies and the Imperial Tobacco Company. In these cases reductions in distribution costs, though not disclosed, must have been considerable. Typical examples of attempts to eliminate uneconomic competition through trade associations, to stabilize prices, limit advertising expenditure, and impose standards of quality, occur in the electrical industry, where groups of producers have been formed to regulate distribution, such as the British Wireless Valve Manufacturers' Association, the Electric Lamp Manufacturers' Association, and the British Electrical Appliance Manufacturers' Association.

In certain instances, trade associations impose quotas on their members. The most noteworthy and possibly the best example of this occurs in the telephone equipment manufacturing industry, where representatives of the chief manufacturers meet regularly at what is known as "tables" and decide to which one of their members specific orders—whether for the home or the overseas market—shall be allocated.

An especially interesting association formed for the protection of its members and the stabilization of the industry is that of the crofters in the Island of Lewis, who produce Harris tweed. Prior to the formation of this group, the individual crofters had no effective marketing and selling organization, and the whole trade in Harris tweed was in

a serious state. With Government sanction, a mark was registered which could only be shown on the genuine product, and at the same time, on the basis of a levy of  $\frac{1}{2}$ d. per yard, a central selling organization was formed in 1937 to distribute and publicize the product. The result has been to arrest the decline of what had been a rapidly deteriorating industry.

As a final example might be quoted the Incorporated Society of Retail Distributors. This association is comprised of most of the large department stores in Great Britain, and imposes standards of conduct upon its members in respect of certain aspects of selling policy, such as the method of describing merchandise advertised for sale, competitive activities, and so on, and authorizes its members to display a mark indicating they belong to the group.

Most of these private associations, however, are confronted with the same problem as English Hop Growers Ltd. Certain less important members of the industry remain outside the association, and, profiting by stabilized prices and controlled distribution, at the same time take advantage of this situation to undercut prices and indulge in unfair trading practices. If the association is strong enough, it can retaliate by cornering supplies of essential raw materials, or else bringing pressure to bear upon distributors not to trade with non-association producers. These measures may or may not be effective.

### **REGULATION OF DISTRIBUTION BY INDIVIDUAL MANUFACTURERS**

In theory the intelligent producer will always strive to exercise some measure of control over his distribution, by instituting policies to establish uniformity of price and quality and the type of outlet stocking his goods. Later, it will be shown how an unduly large number of stockists may represent uneconomic distribution by creating a large

number of small accounts which involve wasted sales effort in servicing them, excess risk of bad debts, uneconomic transport charges, unduly large accounting costs, and so on.

The individual manufacturer may seek to regulate his distribution in any of three ways—

1. By deliberately restricting the number of shops through which he will sell his products.
2. By instituting a system of stockist-agents.
3. By distributing through his own shops.

It is for the manufacturer to say to whom he will sell and to whom he will not sell, and under what conditions. The scientific study of distribution costs has exposed the fallacy that a large number of customers implies a successful business. It may well be that a large number of customers may represent a liability instead of an asset. For example, a manufacturer may obtain 75 per cent of his turnover from 25 per cent of the customers on his books. The remaining 25 per cent of turnover may be secured from 75 per cent of his customers, none of whose accounts are worth, say, more than £25 per annum. Analysis may reveal that, on the basis of costs, it is far more profitable not to do business with this 75 per cent of smaller customers.

When it is considered that each customer calls for selling effort on the part of sales staff, and also transport, packing, and book-keeping costs, if certain orders do not provide a margin of profit to cover these services, and there is no possibility of developing the customers to a point where their orders will become sufficiently large to be profitable, then it is more economic not to trade on this basis. Also, it must be remembered that a large number of small orders may easily strain facilities for handling them, to the detriment of the service given to more important customers. For this reason there is an increasing tendency on the part of manufacturers to limit the number of customers with

whom they deal, or, alternatively, to make extra charges for servicing small orders.

There is, moreover, a tendency to go farther than this. It has been found of greater advantage in the case of many types of merchandise to restrict distribution to a single retail distributor in a specified area; such a distributor then functions on the basis of an exclusive agent for his district. He is required to carry a more or less complete range of goods, but in return has the assurance that no neighbouring outlet stocks the particular brand of merchandise for which he is agent. Invariably, as well, he receives advertising and other sales-promotional help from the manufacturer. The extension of this principle to its logical conclusion by a majority of manufacturers of all commodities, eventually would result in a general reduction in the number of retail outlets, and would tend to eliminate the smaller and less efficiently conducted ones, thus achieving the desirable end of a greater degree of co-ordination and economy in the general scheme of distribution.

Another trend in distribution, the final implications of which are not yet clear, is the tendency for manufacturers to operate their own retail outlets, either opening shops under their own name, or covertly under other names. Not infrequently a manufacturer may obtain sufficient sales by this means to render it unnecessary for him to seek distribution for his products in any other way. Outstanding examples occur in the boot and shoe industry, the multiple tailoring industry, and the catering and pharmaceutical industries. The basic theory underlying the procedure of a manufacturer owning and operating his own retail outlets is that thereby he is in complete control of the distribution policy for his products. In other words, he has a predictable means of distributing his products, and is free from dependence on any third parties who may be competent or otherwise. This

procedure, involving as it does the elimination of the "middle-man" or merchant, represents a reversion to the method of distributing direct from the producer to the consumer.

### **THE INFLUENCE OF THE CO-OPERATIVE MOVEMENT**

An interesting example of co-ordination in distribution is to be found in the Co-operative Societies. In 1939 this movement extended to include over seven million members in Great Britain, each spending an average of £29 per annum in Co-operative shops.

The basic principles of the Co-operative Society operation are—

Shareholding membership open to all.

One member, one vote.

Sales at current prices, with return of the net surplus as a dividend on purchases.

Limitation of the number of shares held by one individual.

Co-operation generally is said to have had its origin at Rochdale, although earlier experiments with similar objectives had been tried unsuccessfully. Initially it was a consumer-retailer movement, as represented to-day by the Co-operative retail establishments, but in recent years it has become a combination of consumer-retailer-wholesaler units, and finally a consumer-retailer-wholesaler-producer organization, comprised of retail shops, the Co-operative Wholesale Society, from which the Co-operative retail shops are encouraged to purchase, and the producing units owned by the Wholesale Society. Thus it represents a practical means of controlling distribution from producer to consumer with the object of eliminating competition along the line of distribution. Actually, to attract custom, prices have to be competitive with those of other outlets. Published figures rather show that the distribution costs of Co-operative

Societies are very much the same as those of other businesses of similar size. The rapid expansion of membership, however, indicates the success of this type of organization, and provided it can be kept free from political influences, Co-operation unquestionably shows signs of being a practical solution to many of the distribution problems inherent in privately operated businesses.

## CHAPTER IV

### THE ERA OF "SCIENTIFIC" DISTRIBUTION

THE technique of market research—The statistical approach—The economic approach—The psychological approach—The anthropological approach—Specialist aspects of modern distribution.

As we already have seen in the later portions of Chapter I, it was only when the conception became current that distribution must be conceived "backward" from the consumer to the producer, and not "forward" from the producer to the consumer, that the era of "scientific distribution" can be said to have been initiated. This conception was borne of the years of intensive competition, resulting from increasing over-production to cater for a contracting market. It might be said that the implications of this principle were not fully appreciated until almost a decade after the conclusion of the Great War, although it is true that in the late nineteen twenties much was said by prominent business men and others concerning the need for scientific salesmanship and marketing. The evidence also points to the probability that scientific distribution, as such, developed in the United States much earlier than in Great Britain.

Ideally, and following the conception of scientific distribution as a "backward" process from the consumer, the logical implication is that in a completely planned scheme of distribution, the capacity of the consumer in any given area or market to absorb either spontaneously, or as the result of educative measures—such as advertising in various forms—the production of any specific commodity may be accurately predetermined, and distribution and production planned accordingly. Such is the basic principle underlying the operation of quotas. But this procedure is only

practicable when the entire scheme is co-ordinated either through State control, by a monopoly, or by associations of producers sufficiently strong to enforce regulation of production. These conditions imply the elimination of competition. It becomes a philosophical question whether the elimination of competition is beneficial to progress or to the interests of the consumer.

From the practical viewpoint the existence of competition implies that estimates of the capacity of a given market to absorb the produce of any one manufacturer must be qualified by the success within the market of *all* the other manufacturers producing the same type of commodity. This is quite apart from the factors of economic conditions and of extraneous competition. For example, if the public are influenced to spend their money on purchasing, say, motor-cars, this may impair their capacity to buy new clothes, and so on.

Once several producers are competing extensively, and without any form of regulation, in a free market, the following inevitable results ensue—

1. The "services" or advantages offered by one producer and his retail distributors to induce consumers either to continue to use his product, or to change to it from that of other producers, must be more extensive than would be the case if distribution of the commodity in general were regulated. The consumer may benefit from such services, or their cost may be included in the price of the goods.

2. The number of outlets for the *type* of commodity must become larger than is economic to cater for the needs of the market.

3. As the result of (2) the total stocks of the commodity held by retail outlets and in the producers' warehouses must be greater than are essential.

4. Direct selling effort on the part of the producers concerned must be more intensive, and so more costly.

5. Expenditure on methods of influencing consumers, i.e. advertising, etc., to purchase any individual producer's commodity may become larger than is economical.

The problem of the individual producer in endeavouring to assess the quantity of his output the market can absorb is rendered more complex by the competitive situation. The more restricted a market is, and the less capable it is of expansion, the more one producer's success or failure will be dependent upon the success or failure of his rivals, and the more money he will be forced to spend on measures aimed to establish his superiority, until he reaches a limit where he can afford to spend no more and he must either go out of business or come to some agreement with his competitors.

### THE TECHNIQUE OF MARKET RESEARCH

The term "Market Research" is an ill-conceived one, tending to enshroud with mystery a simple procedure of analysing the factors operative in a market and arriving at conclusions thereon. However, the term has become established in the vocabulary of marketing jargon, and as such requires definition. The earlier conception of market research technique had its origin in America, and consisted of hiring field investigators, armed with questionnaires, which they used as bases for interviewing numbers of actual or potential consumers of a commodity. The data they obtained, when analysed, were employed to portray market characteristics. This technique has now been in general use for well over ten years, and so may be viewed in its correct orientation within the general scheme of scientific distribution.

In the early days, the validity of the results obtained were affected by the employment of either incompetent or dishonest field workers, the adequacy of the sampling made,

and many other factors. Statistical tests of validity or the extent to which findings could be regarded as typical and not merely the outcome of chance, were applied all too infrequently. The psychology of the interview, the pitfalls of leading questions, the distinctions between the values of questions relating to what people do, or why they act in certain ways, or what they might do, frequently were not adequately appreciated. However, the procedure generally now has been put on a more scientific basis, and, more important still, its limitations recognized. The information obtained through field investigations properly conducted, analysed, and the results considered with due regard to statistical validity, is of undoubted value in determining distribution procedure, but it is recognized that such field work neither constitutes the beginning nor the end of "market research," nor, however scrupulously executed, can data obtained in this way be considered more than representing a portrayal of *trends* existing at the time of the investigation and which, moreover, might be changed in a single day by the intrusion of other factors arising subsequently. In other words, the results of field investigations, considered as isolated data, are dangerous weapons in the hands of those incompetent to interpret them, or recognize their limitations.

As part of the technique of scientific distribution, market research must have a much wider connotation than its original one of field investigation. Primarily, it must be an analysis of people—and people are markets—numerically, socially, economically, psychologically, and even anthropologically. Expressed in another way, market research must be a study of consumer habits in the *past*—to ascertain what has led up to the present habits; in the *present*—to know what people are doing; in the *future*—to forecast what is likely to happen.

## THE STATISTICAL APPROACH

The Statistical approach to the problems of distribution is the most objective, and so, in many ways, the most reliable. Of themselves, statistics may mean little; but they may be employed for the following purposes—

1. *To reveal trends from period to period.* This may be achieved by a simple comparison of factors during one period with factors during another, i.e. the population of an area during one year compared with that during the next, or sales for one month compared with sales the same month the previous year.

2. *To reveal existing conditions only.* This, however, normally cannot have a full meaning unless existing conditions are compared with what has happened in the past, or what is likely to happen in the future.

3. *To forecast the future trends.*

4. *To fill in gaps between known factors.* If known factors are charted in the form of a curve, then, by extending this curve, the extent of hitherto unknown factors may be estimated.

5. *To compare or correlate one set of facts or one trend with other sets of facts or other trends,* i.e. sales one year with sales during another year, *per capita* sales in one area with *per capita* sales in another area, and so on.

The statistics in the light of which distribution problems are reviewed, normally would be of the following types—

1. Statistics from within the business, and indicative of its operation, i.e. sales figures, costs and their relation to sales, i.e. selling costs, advertising costs, transport costs, warehousing costs, etc.

2. Official or unofficial published statistics relating to population characteristics of the market, viz. the number, age, sex, wealth, occupation, etc., of the people in areas being considered as possible markets.

3. Official or unofficial published trade data, i.e. imports, exports, production, consumption, number of outlets, etc.
4. Qualitative and quantitative statistical data obtained by field investigation.

### THE ECONOMIC APPROACH

As has already been emphasized, statistics employed without having in mind their relation to other factors may prove to be exceedingly dangerous. In assessing the distribution problem the economic factors operative must be duly taken into account, for example such as the economic structure of the community constituting the potential market. These may be expressed statistically or otherwise. It may be difficult to determine where economic factors end, and sociological factors begin. The questions of what people can afford to pay for a commodity, how they allocate their available money for the necessities of living, the surplus they have at their disposal for spending on what they may regard as luxuries, what they regard as luxuries and which products as necessities, all must be studied before any adequate and informed decision can be reached on distribution policy. Proceeding further, the effects of tariff restrictions, the question of limitations imposed by the State, and the "absorption capacity" of the market must be assessed. Finally, a forecast of economic conditions for a period ahead should be made and policy modified in accordance with the possible cycles of economic activity.

### THE PSYCHOLOGICAL APPROACH

By the psychological approach is meant an informed study of the basic inborn instincts and habits of the individuals comprising the market under consideration, and how these may be exploited most effectively so as to dispose of a specific commodity. Especially are these of importance in the development of advertising, the object of which is

to persuade people to purchase the product. The psychologist recognizes a number of basic instincts connected with either the survival of the individual, the perpetuation of the race, or the general tendency to seek comfort (pleasure) and avoid discomfort (pain). The most potent instincts are those of pugnacity (finding modified expression in self-assertion, vanity, etc.), hunting (to satisfy hunger or the need for food), the possessive instinct, the instinct of curiosity, and the instincts connected with parenthood and sex, protection of the young, and reproduction.

If these instincts can be stimulated, then they must find expression in action. When applying this principle in a practical way to the problems of marketing and selling, the difficulty is that, while the number of people in any given area may be counted, and the economic factors affecting them assessed with some reasonable degree of accuracy, the psychological factors are more intangible, more variable, as between one individual and another, and so more difficult to measure and express.

Considerable progress has been made by psychologists in the technique of measuring what has been termed "General Intelligence." This factor in relation to a given area, undoubtedly must have considerable bearing upon the technique to be employed in marketing a product, in just the same way as, for example, the measurable factor of wealth is important. If fifty per cent of families in an area have incomes of, say, over £500 per year, the marketing problem is vastly different from that in an area where only 5 per cent of families are above this income level. But the psychologist's researches have not yet extended to the point where he can assess the numbers of individuals in an area coming within various intelligence classifications, although he has established that the advertising which will be effective in influencing persons of low intelligence must be different

from that which will influence persons belonging to higher intelligence groups.

There are the other more intangible psychological factors for which the technique of measurement has not been developed, and on which the success of all marketing and selling schemes is dependent to a great extent, viz. those inborn tendencies to action already described as instincts, and the dynamic forces or feelings known as emotions, which accompany them. The advertising expert is almost entirely dependent for the success of his efforts upon the degree to which he can appeal, not to reason, but to the emotions of the individual or group. It is safe to say that only a small fraction of our actions are dominated by logic. At present, advertising procedure aimed at evoking an emotional response, is largely based on individual judgment and not on known laws. Experience has established that certain emotions—sex, vanity, curiosity, etc.—are the more easily stimulated, and the more potent in effect. Advertising appeal is developed accordingly, but there are no means of predicting in specific terms, except intuitively, what the precise result is likely to be.

Apart from the instinct-emotion combination which is so important in the psychological approach to marketing and selling, other psychological factors lend themselves to some degree of measurement and so their practical application may be reduced to a scientific technique, i.e. one in which results are both measurable and predictable with a reasonable degree of accuracy. In advertising, the factor of Attention is of importance. The factors determining whether the individual's attention (excepting those dependent upon instinct and emotion) can be held or not, i.e. vividness, intensity, frequency of repetition, movement, etc., can be assessed. Similarly in matters affecting the characteristics of the commodity, i.e. colour, taste, odour, size, shape, etc.,

techniques of measuring consumer acceptance have been evolved and applied with satisfactory results.

Lastly, much is known of Habit, and how, once consumers have accepted and used a commodity, procedures can be employed to induce them to continue accepting and using it. In some respects habits, which are perpetuated racially, and so become customs, are a matter for study by the anthropologist rather than the psychologist. This conception opens up yet another wide field, within the reference term of Scientific Distribution, of which as yet, we know little.

### THE ANTHROPOLOGICAL APPROACH

Probably the definition of Anthropology as a study of the habits and customs of the human race and the history of their development, is as good as any other. It is not altogether a matter of academic theory to speculate how this science of anthropology has any relation to the problem of scientific distribution. It has an obviously direct bearing when a technique of distribution proposes to operate counter to a long-established custom, as, for example, when for some reason it might be sought to persuade an Englishman to eat roast beef and Yorkshire pudding for his breakfast.

Racial habits and attitudes are deep-rooted in the social structure of a community, and before scientific distribution can reach its logical conclusion, they must be investigated to their earliest beginnings. Questions must be answered, such as, why we are willing to pay a certain price for an article. If the price is above an accepted standard, it is "too dear"; if below, it is "too cheap." Why should an article be difficult to sell if it is priced at, say, 5s., but be readily saleable at £5? Superficially, there would appear to be no rational basis for such attitudes. They certainly are not dependent upon any economic factors. Again, why

should a group of women, almost spontaneously, adopt a particular fashion of headgear, or a particular colour for their dresses, because one particular woman does so, and is featured as doing so in the Press? The immediate answer may make some reference to social leadership, or the effects of propaganda, but the problem cannot be solved so simply, for the question then becomes, why are certain women accepted as social leaders, while others, possibly even more highly placed in the social scale, are not so accepted, regardless of propaganda directed to establish them as such?

These and similar problems only can be solved after a painstaking and detailed study of race history. Anthropology has not yet emerged from its academic cloisters to the extent of applying its findings to the more mundane problems of consumer attitudes. All that can be said at this juncture is, that to be most successful in marketing and selling, we must proceed concurrently with established attitudes. If we proceed contrary to them, we shall be faced with difficulties. Yet there have been occasions when, by breaking a custom, and making some radical departure from precedent, a new custom has been established, which has immediately been accepted by the community, without question. In these cases, the mind of the consumer must have been prepared and made ready for the change, either by accident or by inspired design. Until certain fundamental principles determining race history can be established, despite statistics, painstaking field investigation, the measurement of economic factors, or endeavours to co-ordinate and regulate distribution, it will not be possible precisely to determine the absorption capacity of a market for any particular commodity. *Per capita* potential consumption may be assessed in definite arithmetical terms as an objective to be achieved. If ten thousand families in an area each consume four herrings daily for breakfast, this possibly represents a

market for forty thousand herrings daily. But innumerable, and, at present, immeasurable communal and individual habits, attitudes, and prejudices, militate against achieving this objective, to the extent that actual consumption in this market may be anything from not even a single fish, right up to the forty thousand fish per day. If, for some reason, the community suddenly became convinced that herrings possessed certain extraordinary virtues, consumption would soar upwards. Alternatively, if rumour became prevalent that they were conveyers of a malignant disease, consumption might drop in a single day.

An obvious solution of the problem would be for the State to intervene and legislate that, for better or for worse, all families must consume their four herrings a day, thus overriding the effect of all established habits, preferences, prejudices, and attitudes. But to take action of this nature, with any degree of success, and without stimulating a revolution against the State which imposed a dictum of this kind upon its members, it would be necessary to prepare the way in the minds of individual members, so that this restriction would be acceptable. This again brings us back to the psychological and anthropological factors of which even the State must take cognizance.

So far, the science of distribution, even under the most ideal conditions favouring control, can only attempt to regulate the more tangible factors in the marketing situation—limits of production can be set, methods of physical co-ordination evolved, but the more obscure psychological and anthropological factors determining consumer acceptance remain, in general, as territories for future investigation, the result of which will be as radical in the realm of marketing and selling as when psychologists, at the beginning of this century, first established that human capacities were measurable in precise terms. Whether the result will be to

make life standardized and drab, or freer and fuller, is a matter for philosophical speculation.

### SPECIALIST ASPECTS OF MODERN DISTRIBUTION

From the foregoing, it will be appreciated that, from being a simple process of exchanging one surplus for another, the distribution of commodities has become a complex part of the modern social structure to the extent that its individual aspects each demand a degree of specialist knowledge on the part of those responsible for them. All these aspects call for some degree of scientific control if they are to be properly co-ordinated. They may be summarized as follows—

1. The assessment of market potentialities, and characteristics, by means of field investigation, a study of social, economic, and vital statistics, and an examination of the psychological and anthropological factors operating.

2. The institution of a mechanism to formulate distribution policy based on the findings from (1) and to control the implementation of this policy.

3. The application of the findings from (1) by trained specialists so as to enable the commodity to meet with the requirements of the market in regard to its characteristics, such as colour, shape, odour, taste, size, price, etc.

4. The development of procedures to influence the individuals in the market to desire to use the commodity, i.e. advertising and propaganda.

5. The development of an organization structure which will actively persuade the community to purchase the product, i.e. selling and sales management.

6. The ensuring that adequate, but not excessive, supplies of the commodity are available and in reserve, i.e. retailing and warehousing.

7. The organizing of essential services to convey the

commodity to the ultimate consumer in the quickest, most economical, and effective way, e.g. packing, transport, etc.

The first of these specialist aspects has been referred to in this and the preceding chapter, as one of the most important in modern scientific distribution. It has been considered partly in relation to the general theory of distribution, and partly in respect of its practical implications. In the chapters which follow, the other factors will be discussed in their broad practical relation to each other.

## CHAPTER V

### THE CHAIN OF MODERN DISTRIBUTION

DIRECT distribution from the producer to the consumer—Distribution to the consumer through independent retailers—Distribution from producer through wholesale merchants to retailers and consumers—The implications of producers dealing direct with retailers—The effect of advertising upon the producer-wholesaler-retailer relation—Repercussions resulting from the marketing of competitive branded goods.

MODERN distribution is so complex that no one process can be taken as a typical example. However, in general, two major groups of commodity are involved, viz.—

1. Those which pass through the entire distribution process in much the same state, i.e. products such as eggs, vegetables, milk, etc.

2. Those which are radically changed in the course of the distribution procedure, i.e. commodities which begin the cycle as “raw materials” and pass through one or several stages of manufacture before reaching the ultimate consumer.

Both these groups proceed along more or less similar lines in respect of distribution taken as a process. In the case of (1) the term “producer” is applicable to, say, the farmer; in the case of (2), the term “producer” refers to the manufacturer.

### DIRECT DISTRIBUTION FROM THE PRODUCER TO THE CONSUMER

Under the Domestic System in industry, distribution from producer to consumer was simple and obvious. Under present-day conditions, this type of procedure still exists in that the producer may sell directly to neighbouring consumers from his farm, dairy, or factory, or to visiting

consumers in the same way ; or to consumers through the medium of a market where he rents a stall.

A modification of this procedure occurs when the producer operates his own retail shops or sells direct to consumers by means of travelling salesmen, by advertisement in the Press, or by letter, etc.

In theory, the process of distribution direct from producer to consumer apparently has much to recommend it. It should afford satisfaction to the consumer in so much as he will be likely to receive the commodity in good condition ; also it has the advantage of eliminating the intermediate or "middleman," enabling both the producer and the consumer to receive full value. In practice, producers operating under this system may sell the commodity at prices lower than those prevailing, and still obtain larger profits than if they distributed through intermediaries.

In the case of smaller producers, there will be a temptation to disregard costs represented by their own time and labour ; by undercutting ruling prices they will tend to depress the general price for the commodity. Where their direct sales extend to any considerable distance from the point of production, and especially when these are made up of small units with equivalent greater transport costs and risks of bad debts, the disadvantages of the system are more apparent.

The chief difficulties connected with any system of direct distribution are that, during seasons of over-production or under-consumption, i.e. when a glut occurs, the producer inevitably finds himself with a greater supply of the commodity than his normal market can absorb, and so he is forced either to reduce prices drastically to stimulate sales, or, alternatively, to "dump" his surplus in other markets, thus probably accentuating the glut. Conversely, if for any reason he under-produces, or the absorption power of his

market unexpectedly increases, he is in no less serious difficulty.

By properly organized systems of controlling production in accordance with anticipated market demands, or by maintaining reserve stocks built up from surpluses during periods of over-production or under-consumption, the problem can be solved to some extent, but the financial implications of restricting production or building up large stocks may be serious unless the individual producer is sufficiently large and has the monetary facilities to carry him through such periods.

### **DISTRIBUTION TO THE CONSUMER THROUGH INDEPENDENT RETAILERS**

It is not generally recognized that the procedure of the producer distributing to the consumer through independent shopkeepers actually preceded that of distribution from producer to the wholesaler (or dealer), to the retailer, and so to the consumer. Under the Domestic System in industry, many producers found it convenient to dispose of their output to local shopkeepers. To-day, many small producers of all types of commodity often follow the same procedure. In the case of farm products the basis may be that of purely exchange transactions.

Ironically enough, the large producer of to-day who scorns to employ an intermediary or wholesaler to distribute to retailers for him, employs an identical method, but on a much larger scale. He claims that a direct and short chain of contact has the advantages of fostering the producer's interests to the maximum extent, of reducing intermediate costs of handling, and confining responsibility for such factors as quality and service.

The most serious problem arises when, during seasons of over-production or under-consumption, retailers who operate

in this direct relation with producers, find themselves under obligation to take from the producer more than they can sell. This has happened in the case of both manufactured goods and primary products, and the ultimate result has been beneficial neither to retailer nor to producer. The difficulty may be overcome by intelligent anticipation of market requirements on the part of the producer and by his restriction of production or building up reserves of stocks, subject, of course, to adequate financial resources being available.

Possibly a more common situation is that in which the producer can impose no obligation upon retailers to take his commodities in specific quantities, i.e. the system under which the retailer is free to choose the producers from whom he purchases and to be independent as to what he purchases, and when. While this has much to commend it from the viewpoint of the retailer in that, to some extent, it gives him complete freedom of action, yet it has its disadvantages. Apart from the important factor of the producer being able to force distribution if he so desires, and is strong enough, if there is no obligation on the retailer to buy, so also there is no obligation on the part of the producer to sell him specified quantities. So the retailer is dependent on the goodwill and the intelligent anticipation of the individual manufacturer in building up stocks to support him. It might be said that, if one producer will not supply the retailer, he is at liberty to approach others. This is practicable during periods of over-production, but does not hold when there is a market shortage. With the modern tendency to market branded goods, and force distribution through influencing the ultimate consumer, it is becoming less practicable.

## DISTRIBUTION FROM PRODUCER THROUGH WHOLESALE MERCHANTS TO RETAILERS AND CONSUMERS

The wholesale merchant or distributor has evolved in three ways—

1. From travelling dealers, who collected output from producers and found suitable outlets for them, often at a considerable distance from the point of production. The larger travelling dealer who found he could not dispose of what he purchased in this way in near-by districts, or immediately, was compelled to set up warehouses for storage and packing facilities. In many cases wholesalers of this type are in a position to name their own terms as to price, etc. Often, more than one wholesaler may deal with an individual producer. To-day, frequently, instead of approaching the producer, the wholesaler's buyer waits for the producer to approach him.

2. When producers, unable to dispose of their surplus individually, formed themselves into groups which organized central warehouses for distribution purposes. The success of any such scheme would imply that the group of retailers would be able intelligently to forecast their requirements and control the stocks of the central warehouse accordingly.

3. When retailers, owing to poor supply facilities, or when they consider they can obtain better service and terms by doing so, have formed themselves into buying associations, which control warehouses and operate on a wholesale basis to buy direct from producers.

Broadly speaking, wholesalers may be divided into two types; those distributing to retailers direct, and those who buy on a large scale, sell to other smaller wholesalers, and rarely come into contact with the retailers. The wholesaler

of either type may specialize in a particular kind of merchandise, he may stock the output of a few or many producers, or he may trade in a limited range, or in all kinds of merchandise.

In theory, the advantages of the wholesale system are—

1. It provides the producer with a ready market for all his output, so eliminating the need for him to maintain a selling and distributing organization of his own, i.e. the producer is enabled to sell to the wholesaler in bulk, instead of becoming involved in the expense of a larger number of smaller orders.

2. It reduces the producer's capital requirements by eliminating the need for carrying stocks and also giving him the benefit of immediate payment for his output.

3. It enables the retailer to purchase all, or the majority of his requirements from one source, so eliminating the necessity for him to waste time exploring sources of supply. Instead of placing a number of small orders with several suppliers, the retailer can place a single order with one supplier.

4. In buying from a reputable wholesaler, the retailer has a source of supply on which he can rely for quantity as well as quality.

5. The operation of the wholesaler benefits the general scheme of distribution in that, theoretically, at least, he will purchase their output from producers and dispose of what he can in the "normal" market, at the same time continually exploring new avenues for sales, and devising means of disposing of surplus requirements.

6. Theoretically, the wholesaler functions as a "reservoir" for storing surplus production until it can be disposed of in the proper way, without creating a glut in the market or reducing prices.

The evolution of the wholesaler was the first sign of an

orderly and co-ordinated system of distribution. To appreciate this point, it must be realized that the inevitable variations in the ratio of production to consumption make demands upon the system of direct distribution from producer to retailer which impose a great strain. When the ratio is loaded in respect of production, the retailer has offered to him, not only larger supplies of merchandise from the producers with whom he normally trades, but also from other producers who have surpluses. In consequence of this, prices may be depressed even further than is necessitated by the market situation.

Even if this situation is purely one as between local producers and local retailers, the producers may seek to dispose of their surpluses by placing them in other markets at reduced prices. This process may be further aggravated by producers becoming dissatisfied with the prices they have obtained from their retailers and so offering their commodities direct to consumers. As a result, though temporarily they obtain a better price in this way, by depressing further the condition of their retailers, they affect their ultimate ability to absorb their goods.

On the other hand, when the ratio is weighted away from production, i.e. when there is a scarcity of the commodity through not being able to obtain it, retailers, and consumers especially, may cease to be interested in it, and so more difficult to persuade to buy it when production becomes normal again.

The organization of an adequate system of distribution regulated through a wholesale reservoir should, in theory, eliminate these difficulties. However, such a system has never yet been permitted to operate, and consequently, all the inherent advantages have not been realized. Producers, wholesalers and retailers all must share the blame for this, in equal degrees, i.e.—

1. Subsequent to the advent of branded goods, producers considered they were not being adequately represented by their wholesalers, and decided they could dispose of more of their merchandise by going direct to shopkeepers, and perhaps also, at the same time, could take the profit absorbed by the wholesalers.

2. Retailers often found they could obtain better terms by dealing direct with producers. The tendency became for them to deal with the producer when they required large quantities, and only to approach the wholesaler when they required small quantities.

3. Wholesalers ceased to perform their correct function—in fact, seldom ever have done so, i.e. carrying stocks and absorbing the total output from producers. They adopted a policy of carrying increasingly smaller stocks and operating on a hand-to-mouth basis, thus throwing back to the producer the responsibility for carrying stocks.

These factors together have created a vicious circle until, in most industries, the wholesaler has ceased to be of any importance. In industries where retailers tend to purchase specific items in unit or small quantities, e.g. the motor and cycle accessory business, the wholesaler still functions. Or, he may finance certain small retailers, as in the drapery trade, and so operate as a type of central buying and warehousing organization. In general, however, with the growth of large multiple organizations, and department stores, and the increasing desire of producers to control their own avenues of distribution, the wholesaler, as a type, has ceased to be the central co-ordinating function he should be.

### **THE IMPLICATIONS OF PRODUCERS DEALING DIRECT WITH RETAILERS**

The implications of producers dealing direct with retailers have already been pointed out in some degree. They

represent all the disadvantages which the intervention of the wholesale merchant should have overcome, viz. maintenance of individual selling staffs, and the increases in distribution costs inseparable from handling a multitude of small orders from numerous and widely spread retailers. A most important factor is that concerned with stocks. If the producer deals direct with retailers without the intermediate "reservoir" provided by the wholesaler, then, to prosper, he must—

1. Regulate stocks and production according to market demands.

2. Arrange for the disposal of surplus either by letting it rot, by selling it at reduced prices, by storing it, or diverting its use into new channels.

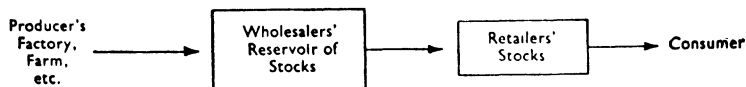
However, if one, or a limited number of producers in an industry regulate their stocks and restrict production, and others do not, then the latter temporarily gain at the expense of the former, who eventually may find themselves in an impossible situation, and revert to the old system of non-restricted stocks and production; whereupon chaos ensues, and conditions in the whole industry may become so bad that measures finally are taken to form an association, monopoly, or State-regulated corporation, to control the output of all producers. It is extremely questionable whether any group of producers competing in a restricted market can ever agree for long, and so the possibilities of control through a trade association are dubious. Pressure by the State or the influence of a strong leader in the industry to form a close corporation or monopoly possibly is more effective from the practical viewpoint.

When the retailer operates under the system where there is no intermediate wholesaler, supplies to replenish his stocks may be precarious or steady, according to the state of the particular industry. If he deals with the producer,

he must buy larger quantities of the commodities than if he dealt through a wholesaler, i.e. to secure price advantages, and also because delivery may be protracted. Thus, under these circumstances, the retailer also is faced with a problem of stocking and warehousing. Both he and the producer have to carry excess stocks. These represent frozen capital, so restricting the operation of both retailers and producers, both individually and in respect of the industry as a whole.

The following diagrams graphically illustrate this point.

#### STOCK SYSTEM WITH THE WHOLESALER AS AN INTERMEDIARY "RESERVOIR"



#### STOCK SYSTEM WITH THE PRODUCER DEALING DIRECT WITH THE RETAILER



### THE EFFECT OF ADVERTISING UPON THE PRODUCER—WHOLESALE—RETAILER RELATION

In a later chapter, it is proposed to make a more detailed study of advertising and propaganda. At this stage, advertising is merely considered in its relation to the elimination of the wholesale intermediary from the scheme of distribution. Fundamentally, advertising and propaganda may be used to achieve either or both of two objectives in regard to distribution—

1. To *educate* the community to use a *type* of product in increasingly large quantities.
2. To create in the mind of the community the desire to purchase one producer's product rather than that of any other, or, alternatively, to change from one producer's

product which they are using, to that of another producer.

The first of these objectives may be achieved without it being necessary for the consumer to distinguish the output of one producer from that of another. The effect is to benefit all the producers of that type of product. The competitive element, aggravated possibly by conditions of over-production, usually will cause producers to become dissatisfied with securing only a fair share of the market. Individual selling effort as represented by a direct approach to retailers will result. Similarly, an individual and direct appeal will be made to the consumer. To carry this to a logical conclusion, it is essential that the individual producer's commodities should be identifiable. Thus brand names have resulted.

At this stage, it is sufficient to emphasize that by advertising his own brand name, the producer is endeavouring to establish the superiority of his own production in the mind of the *consumer*. If the retailer is to prosper, he must cater for the needs of consumer, therefore the degree to which the producer is successful in establishing his brand name in the consumer's mind will largely determine whether the retailer *must* stock the advertised branded merchandise, regardless of his own preferences. The results are—

1. A strengthening of the position of the producer who advertises his brand name extensively.
2. A corresponding weakening of the position of the retailer in his relation with the producer in proportion as the latter establishes a position from which he can dictate terms.
3. The elimination of the need for the wholesale intermediary, who necessarily and typically is impartial in respect of individual brands, so long as the price, profit, and quality factors are equivalent.
4. A certain amount of duplicated advertising effort as between producers of competing brands.

In other words, the intrusion of a practice of branding individual producer's commodities, whatever advantages it may have in other directions, definitely has the effect of disturbing the distribution scheme by decreasing the fluidity of surplus production, and introducing elements of redundant costs and duplicating stocks. The exception is when a brand is applied to a *type* of merchandise, and allied to an educational propaganda scheme, e.g. the National Mark scheme for eggs, etc.

### REPERCUSSIONS RESULTING FROM THE MARKETING OF COMPETITIVE BRANDED GOODS

More far-sighted and stronger retailers were quick to realize the extent to which the impressing of brand names upon the mind of consumers would affect them, viz.—

1. By reducing the range of their suppliers to those who advertised their brands most effectively.
2. By enabling producers with established brand names to dictate the terms under which they traded with them, i.e. prices to the consumer, margins of profit, etc.
3. By ultimately tending to make them entirely dependent upon the producer of advertised branded lines.

Large retailers with the financial resources to do so have rebelled against these strictures, and have insisted on retaining their freedom of action by refusing to facilitate—as far as may be within their power—and often openly discouraging the sale of producer's branded goods through their shops. Smaller retailers have had to submit—for better or for worse. Frequently, the large retailer, while succeeding in keeping himself free from the shackles the producer has sought to impose upon him through National Advertising, has experienced difficulty in obtaining supplies of unbranded goods, and so has decided himself to extend into the field

of production, thus inevitably further contributing to the problem of excess production.

Conversely, the producer of branded goods frequently has found that hostility to his advertised brands on the part of the more important retailers has materially affected his turnover. So, rather than capitulate, and supply unbranded goods, he, too, decides to control his own destiny, and proceeds to embark in the field of retailing, thus often adding to the distributive structure more shops, which sell his branded goods almost exclusively, and so augmenting what probably is already a redundancy of retail outlets. Thus the equilibrium of distribution is being further disturbed, and the problem of surplus stock and unnecessary costs progressively aggravated by the element of unintelligent competition designed to benefit not the consumer, but the individual producer, and ultimately benefiting no one.

## CHAPTER VI

### PRODUCT TYPE AND ITS RELATION TO DISTRIBUTION

#### PROCEDURE

THE implications of branding commodities—Classification of finished goods for individual consumer use—The distribution of convenience goods—The distribution of shopping goods—The distribution of speciality goods—The distribution of products for industrial use.

THERE already has been occasion, incidentally, to study two broad groups of product classification, and to comment upon certain factors operative in relation to the distribution processes connected with them, namely—

1. **Raw materials**, i.e. those commodities which reach the ultimate consumer more or less in the state in which they left the original producer.

2. **Manufactured goods**, i.e. those commodities in which the original raw material has been changed from its original form during the process of distribution from their original producer to the ultimate consumer.

The consumer of raw materials may be of two types—

(a) An *individual* who uses them to satisfy his own physical or other needs, as in the case of agricultural products, meat, milk, etc.

(b) An *individual or organization* who utilizes the raw materials to produce manufactured goods, e.g. fruit to produce jam, iron to make machinery, etc.

The consumer of manufactured goods may be of three types—

(a) An *individual* who uses them to satisfy his own needs, e.g. manufactured foods, clothing, etc.

(b) An *individual or organization* who utilizes goods manufactured by another individual or organization in the course of manufacturing or distributing other merchandise, e.g. fabrics to make clothes, etc. Manufactured goods used in this way often are termed secondary, as opposed to primary or raw materials.

(c) An *organization* which uses certain manufactured plant, etc., to produce other manufactured goods. This actually is only an extension of (a).

Whether the type of commodity may be classified as raw material, secondary material, or finished manufactured goods, or whether it is for individual private consumption, or for industrial use, the same common factors of distribution apply, and the same procedure may operate as from producer to ultimate consumer. Identical principles of maintaining equilibrium apply with regard to assembling supplies and dispersing them where they can be absorbed in the most effective way.

In the previous chapter, it has been shown how this equilibrium may be disturbed by one producer endeavouring to secure more than his share of a restricted market, or by spending money on advertising and his own sales staff, with the object of establishing his product in the mind of the ultimate consumer. The inevitable concomitant of this development has been the establishment of brand names. Thus all commodities may be classified into two further groups—

1. *Branded goods*, or those in association with which an individual producer or group of producers have established a name or mark to distinguish it from that of another individual or group of producers.

2. *Unbranded goods*, or those which have no such distinguishing mark.

## THE IMPLICATIONS OF BRANDING COMMODITIES

A brand or "mark" may be used for either or both of two purposes—

1. Simply to distinguish the output of one producer from that of another, so that the former is enabled to direct competitive propaganda and selling effort towards increasing the consumption of his product to the detriment of other producers.

2. With the object of indicating a quality or grade of product.

In so far as the ultimate consumer is concerned, brands or marks provide him with the following advantages, regardless of whether the objective is (1) or (2).

1. He has a means of identifying the product so that he is enabled to name and recognize it with the object of purchasing it again if it has given him satisfaction, or to try another brand if it has not.

2. Legitimately used, a brand should imply a consistent standard of quality. This is a protection for the consumer against variations in quality.

3. If the product has been advertised under its brand or mark and such advertising has interested the potential consumer, the brand or mark provides him with a guarantee that he will purchase the commodity described in the advertising.

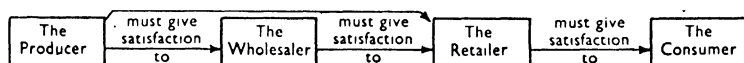
Similar provisions apply to the retailer stocking the branded goods, although in doing so, his position in some degree also is weakened to the extent indicated in the previous chapter.

Thus, superficially—in spite of the fact that when the practice of branding has been prompted by a competitive spirit it tends to disturb the equilibrium of distribution—it is of some benefit to the ultimate consumer in that it

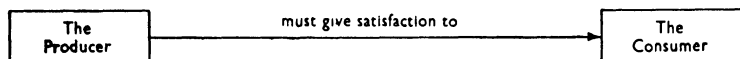
more or less compels the producer to stand by the quality and other attributes of his merchandise.

On the other hand, the producer, if he intends to prosper, equally must stand by the quality of his unbranded goods, though for a different reason. In the case of unbranded goods of variable quality, it is the retailer who must bear the brunt of the consumers' complaints. He, in his turn, must rely upon the integrity of the producer or wholesaler who supplies to him. This is illustrated diagrammatically as follows—

#### UNBRANDED GOODS



#### BRANDED GOODS



The principle illustrated above is that producers of unbranded goods must give satisfaction at every stage in the chain of distribution, since those concerned at each stage, in their turn, must assume responsibility to the next stage. In the case of branded goods, so long as the ultimate consumer can identify them, recognize their advantages, and remain in a state of mind to desire to purchase them, the producer can almost ignore the goodwill of any intermediate stage, although, obviously, it is desirable to cultivate this if possible. Conversely, if the consumer rejects a brand of commodity, the greatest amount of goodwill on the part of intermediaries will have little effect upon sales. Thus, just as a well-known public figure must exercise judgment in respect of his indiscretions, so must the producer of a branded commodity maintain the highest possible standard of quality.

From this analysis, it would appear that the branding of commodities has—

1. The advantage of making high standards of quality and value essential.
2. The disadvantages of redundant costs and disturbances of distribution equilibrium introduced by the elements of competition.

When the latter factor is eliminated, and the former retained, then the procedure of branding represents a progressive step in the technique of distribution, i.e. when brands or marks are used as indications of standards of quality, and not to identify the output of individual producers. In this case, and providing a wholesale “reservoir” for converting reserves of stocks and disposing of surpluses can function, then all producers of the commodity will have their fair share of the proceeds from the market.

The difficulty with many commodities lies in the problem of grading qualities. Adequate criteria often are difficult to determine. In Great Britain there are a few isolated instances where grading and branding (or marking) according to quality has been carried out with success. Typical cases occur in the marketing of potatoes and eggs, and to a somewhat different extent with milk. It is significant, however, that, in these examples, a certain amount of State intervention has been necessary. It is questionable whether similar conditions could be made to apply to the ordinary type of manufactured goods without some degree of State compulsion upon producers.

### **CLASSIFICATIONS OF FINISHED GOODS FOR INDIVIDUAL CONSUMER USE**

We have seen how certain implications in respect of branded and unbranded goods apply to all types of commodity, whether they come within the category of raw

materials, secondary materials, or finished goods, for individual or industrial use. We also have considered the implications of each of these three types in their relation to each other. A further cross-classification of goods for general public consumption may be made as follows—

1. *Convenience goods*, i.e. those which the consumer (the general public) uses more or less regularly, and in comparatively large quantities, in the course of everyday life. It is these which provide the greatest element of competition among their producers in that qualities can be easily assessed and recognized by the purchaser. Thus convenience goods typically are branded, and prices are more or less standardized and of low unit values. Examples are sugar, soap, tobacco, cigarettes, etc.

2. *Shopping goods*, i.e. those which the consumer (the general public) uses less regularly, but in connexion with which values and qualities cannot readily be assessed to such an extent. The consumer, however, will require some measure of value for quality and will proceed from one shop to another in an endeavour to obtain this. Typically, shopping goods are unbranded, so there is no common standard of quality or price. Examples are most drapery goods, clothing, shoes, etc.

3. *Speciality goods*, i.e. those which are used more or less infrequently by a limited number of consumers, and are only obtainable from comparatively few sources. Speciality goods may be branded or unbranded, and prices normally are of high unit values. The outlets supplying speciality goods usually confine their activities to a very limited range of stock. Typical speciality goods are equipment for domestic use, and certain high-grade, high-price quality merchandise, not coming within the category of shopping goods, such as expensive clothing, furnishings, etc.

## THE DISTRIBUTION OF CONVENIENCE GOODS

The characteristic of convenience goods is such that their rate of consumption is high, and so they must be readily obtainable by consumers. Thus the distribution of convenience goods is typically secured through a large number of outlets grouped more or less according to consumer density, and in close association with consumers, to facilitate purchase. Since standards of price and quality generally are known to consumers, the producer must seek to obtain distribution at as many points as possible. Another reason making this essential, is that purchasers will not go from one outlet to another in search of branded, fixed-price convenience goods. It is therefore in connexion with this type of commodity that there is the greatest need for co-ordination and regulation, yet, at the same time, there always will be the greatest difficulty in achieving this objective. Generally speaking, the costs of distributing convenience goods, as represented by transport, redundant stocks, and expenditure on competitive advertising, will be greater than with any other type of commodity.

## THE DISTRIBUTION OF SHOPPING GOODS

Standards of quality and value are not so easily recognizable by the consumer in the case of shopping goods. On the other hand, their potential purchasers will tend to go from one outlet to another, in an endeavour to compare styles, values and qualities—especially the former of these three. The outlets for shopping goods are less numerous, and also will tend to be concentrated in what are termed “shopping centres.” The producers’ costs in terms of advertising are lower because shopping goods usually are unbranded. The retailer of shopping goods often purchases in comparatively large quantities in order to obtain price advantages, therefore

transport costs are lower. Against this advantage the selling effort as represented by salesmen may be more costly, while the risk of losses, due to unsold stock, may be high.

### THE DISTRIBUTION OF SPECIALITY GOODS

The retail outlets selling speciality goods frequently operate on an "agency" basis, confining their stocks to one or a comparatively limited number of producers, who, in return, often give them sole selling rights within a specified area. The distribution costs of speciality goods represented by selling expenses and margins of profit to offset a comparatively low rate of turnover, are high. At the same time, a considerable proportion of speciality commodities are made to order by the producer. In these instances the risk of losses on stocks are minimized.

### THE DISTRIBUTION OF PRODUCTS FOR INDUSTRIAL USE

As opposed to commodities used by private individuals, those used by industrial organizations fall into three chief groups—

1. Plant used in the production of goods.
2. Raw materials, which are used as the basis for the production of manufactured goods.
3. Semi-manufactured goods used in the course of production.
4. Accessory materials used in the course of packing and distribution of manufactured goods.

The technique of distributing products for industrial use is not so far advanced as that for goods intended for general consumption. The practice of branding, for example, is exceptional rather than the rule, although, during recent years, there has been some development in this direction.

The procedure for distribution of products for industrial use differs from that of the categories mentioned as being for public consumption, in that retail outlets typically are not involved. The process may be through an intermediate merchant or agent, but normally it is directly from the producer to the user, and in the case of raw materials, semi-manufactured goods, and accessory materials, on the basis of large quantity orders at more or less narrow margins of profit. Purchase frequently is on the basis of tender and specification, and so stocks of plant or semi-manufactured goods often are not carried, the commodity being produced as ordered. Thus selling, as such, often becomes highly specialized and technical, requiring a highly trained individual as salesman. Under a properly controlled system of distribution, production in relation to stocks should be well regulated. The danger most frequently is that producers of this type of commodity become too dependent for their sales upon a limited number of customers, the loss of one of which has a serious effect upon the prosperity of their business.

## CHAPTER VII

### DISTRIBUTION AS A MAJOR FUNCTION IN BUSINESS ORGANIZATION

THE evolution of the distribution function—The significance of distribution as a specialized function—The scope of the distribution function—The relation between marketing and the production function—The distinction between marketing and selling.

IN all well-organized businesses of to-day, the responsibility for the distribution of the commodities produced is assigned to an executive commonly known as the sales manager, who in practice should co-ordinate all phases of distribution. To understand the operation of co-ordinated distribution as such, it is important to appreciate the scope of these phases, and also to realize the significance of the different, but related, activities which are involved.

#### THE EVOLUTION OF THE DISTRIBUTION FUNCTION

Under the Domestic System in industry, the proprietor and the members of his family were the executives, who supervised production, and made the arrangements for the disposal of what was available for sale. Duties were assigned to individuals in two ways—

1. By commodity, i.e. one member of the family interested himself in the production and disposal of either one or a group of commodities, another in another group of commodities, and so on.
2. Functionally, i.e. one member attended to production, another to distribution, and so on.

In cases of disagreement, the father or the eldest brother usually gave the final decision, and functioned vaguely as co-ordinating executive. Usually, however, under the

extremely loose structure necessarily prevalent, the duties of individual members of the family were largely interchangeable, and overlapped to a considerable extent.

Subsequent to the Industrial Revolution, while the family proprietorial type of business continued to be more or less prevalent, this loose structure was perpetuated, and even exists to-day in certain comparatively large businesses, with the following results—

1. The proprietorial interests have become involved with executive responsibilities, to the detriment of executive decisions, which often are influenced by sentiment and proprietorial motives, and not by reason.

2. The responsibilities involved have become so intricate and varied that only exceptional individuals are capable of handling them.

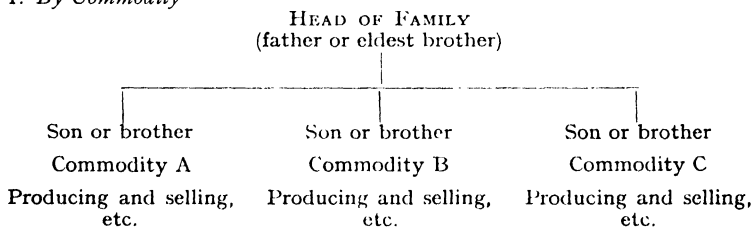
3. Family relationships not infrequently have caused one member of the family to interfere in functions controlled by another member, with the result that responsibilities are seldom clearly defined, and friction is inevitable between individuals, to the detriment of the organization.

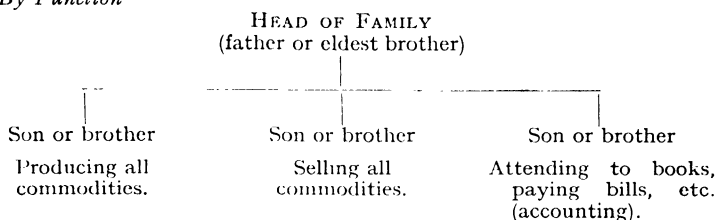
4. It is exceptional rather than the rule, for members of the family to have had proper training in management and so become equipped to undertake executive responsibilities.

These types of organization are summarized in the diagram below—

#### TYPES OF ORGANIZATION UNDER THE DOMESTIC SYSTEM

##### 1. *By Commodity*



*2. By Function*

With the changes resultant from the Industrial Revolution and the extension of factories so that they employed large numbers of individuals, the tendency became more prevalent for one business to produce several types of commodities, many first of all, probably as by-products. As time passed, these by-products assumed quite as much as, if not more, importance than the commodity which the business was first organized to produce. The opportunity for the sons or relatives of the proprietor to interest themselves in specific types of product was increased. Thus the typical pre-1914, family-owned business in effect was made up of a number of almost self-contained businesses, each with production and distribution organizations, which, to all intents and purposes, were quite separate from one another. This system aggravated all the inherent evils of dispersed and duplicated executive effort.

Nor was this type of structure confined to the family-owned business; it also was to be found in many large publicly owned companies in which executive structure was based on the various types of commodity produced.

A combination of three circumstances led up to what is now known as the functional system of management.

1. The depressions in trade during post-war years made it necessary to study the possibilities of reducing duplicated and dispersed effort—executive and otherwise.

2. The gradual disappearance of family-owned businesses, and their replacement by the large publicly owned

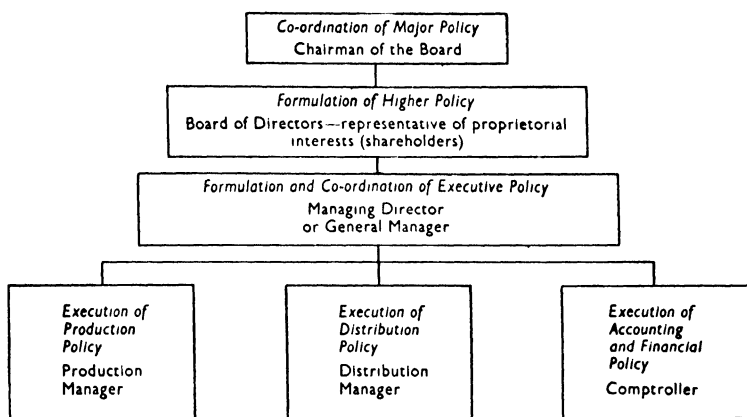
companies resultant from amalgamations and rationalization, made necessary a clearer definition of individual executive responsibility.

3. Men who had experienced the highly specialized methods of army organization necessitated by the magnitude of the Great War, were absorbed into industry as executives in the large public companies resultant from (2) and commenced to apply their knowledge of army organization.

The last of the factors mentioned above was perhaps the most important of all. The army is comparable to a business undertaking. Success in battle always has depended on effective organization, rather than upon sheer man-power, and during the wars which have taken place through the centuries, the army has had an unparalleled opportunity to perfect its organization. No single industrial organization has existed for so long. During the later stages of the Great War, the army was organized according to specialist functions, with staff officers operating as intermediary links. It is unnecessary to describe in detail the application of army organization methods to industry, except to indicate that the results have tended towards the separation of administration or formulation of higher policy, from management or execution of policy, and the division of executive responsibility into three chief sections—Production; Distribution; and Control (accounting, finance, etc.)

In other words, industry has tended to become organized not on the basis of individuals who consciously or unconsciously have assumed or been assigned certain responsibilities, but on the basis of specialized responsibilities the execution of which has been assigned to individuals with the proper training and knowledge.

The broad relation of these responsibilities may be illustrated diagrammatically as follows—



Further refinement often has been added by the separation of the proprietorial (shareholding) interests from those of administrative policy, and the creation of two boards of Directors, a Financial Board, concerned purely with finance, and an Administrative Board, responsible to the Financial Board for policy. The latter may be comprised of the more important specialist executives.

### THE SIGNIFICANCE OF DISTRIBUTION AS A SPECIALIZED FUNCTION

The recognition that activities associated with distribution constituted a major function in the organization structure of industry was the result of an increasing realization of the need for specialization in the responsibilities of executives. Once this development became generally appreciated and applied—as it was towards the end of the second decade of the twentieth century—it made possible more rapid progress towards what we have called the era of scientific marketing. As executives became confined more and more to specialized activities, so a new type of executive began to be essential to well organized industrial undertaking. No

longer was the ideal executive a member of the family or an old servant of the company—the latter invariably poorly paid—who had grown up in the business, and so by reason of his lengthy acquaintanceship with its traditions, was assumed to be able to give more or less successful intuitive judgments based on his own experience, but often inadequate training. The need developed for men who possessed executive ability and who had been properly trained in the principles of management, and so equipped to handle their responsibilities, not in the light of tradition, but on the basis of principles of scientific method, regardless of the industry concerned.

This tendency to some extent was prevalent in the United States before the Great War, but in Great Britain did not become general until almost ten years subsequent to the great European cataclysm. Then young men began to adopt management as a new profession. Preferably, they had a university training, which taught them to think analytically, and to base their judgments on carefully weighed fact. Management became a matter of *technique* rather than of *traditional experience* in a specific industry.

The first aspect of industry to be generally affected in this way was production. It was logical that those with an engineering training should be more readily acceptable to the older type of business man in whose mind, bound by tradition, they, at least, had some so-called “practical” background. At this stage it also was logical to apply to peace-time conditions the scientific methods which war conditions had necessitated in factories. It is significant that the exponents of scientific method as applied to industry should have been, and often still are, described as management engineers.

Acceptance of scientific method as applied to distribution activities was more reluctant, partly because at first

many exponents of the technique were improperly trained, and had sought to capitalize upon the increasing demand for the application of science to industry for the sole purpose of augmenting their own bank accounts. The travesty known as "market research" was made a fetish by some advertising agents. These and similar developments added to the difficulties of applying standards of measurement, and retarded the application of the principles of scientific method to distribution, and their acceptance, to such an extent as in the case of production.

As distribution became more and more accepted as an activity to be controlled by specialists, the shortcomings of the older type of executive became exposed. Ten years after the Great War, the efficiency of production procedures was being increased by the institution of scientific method—the technique of measurement and analysis—as applied by young men untrammelled by tradition. It was inevitable that industrial administrators, realizing the resultant advantages, should commence to insist that the same principles could be applied to distribution. The older type of factory manager fought a desperate rearguard action against losing his traditional right of deciding what products the works should make and what their characteristics should be. Nor did he relish relinquishing the power to control warehouse stocks, often the graveyard of many of his unsuccessful inspirations. Likewise, both the "spit and drive," and even the benevolently paternal Sales Manager resisted procedures designed objectively to assess and scientifically control the effectiveness of their work and that of their staffs. The Advertising Manager not infrequently protested—but in vain—that his work could not be otherwise than guided by creative inspiration. Transport and Packing Room Managers protested that insuperable difficulties rendered impossible scientific cost control and assessment of effort in their departments—

whatever good results scientific method might have achieved in the factory.

Nevertheless, as soon as distribution became recognized as a separate function, and its scope defined, its various activities also became specialized, each requiring trained executives, who could handle their responsibilities with a proper comprehension of scientific management principles. No longer did it necessarily follow that the packer longest in service automatically became the head of the packing-room when the foreman died—or was retired—for no other reason than that he was more imbued than anyone else in the traditional way of doing things.

### THE SCOPE OF THE DISTRIBUTION FUNCTION

Broadly, the distribution function may be defined as being concerned with all those activities related to the distribution of goods, as opposed to the production function whose responsibility it is to make the goods. Thus the distribution function is responsible for—

1. *Selling*, i.e. those activities under the control of the sales manager, especially the direction of salesmen, and which result in directly persuading retailers to stock, or consumers to buy, goods.

2. *Advertising*, i.e. those activities under the control of the advertising manager, and the object of which is to employ the printed word to influence people to want to buy the goods.

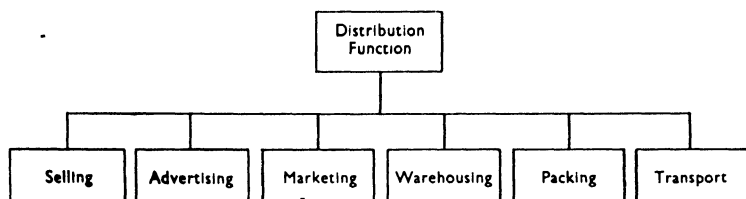
Other activities included in the distribution function, but which have a more intimate relationship with the production function, are—

1. *Marketing*, i.e. those relating to determining what goods are to be produced from period to period, and in what quantities, their characteristics, their prices, method of presentation, etc.

2. *Warehousing*, i.e. those under the physical control of the warehouse manager relating to the storage of finished goods, the maintenance of stock levels, etc.

3. *Packing and Transport*, which are not infrequently part of the responsibilities of the warehouse manager.

The broad relationships of these sections are shown on the diagram below—



### THE RELATION BETWEEN MARKETING AND THE PRODUCTION FUNCTION

The marketing section represents the link between the production and the distribution functions. The distribution function—responsible for disposing of output—is the direct contact with the buyer and/or consumer. Following the line of reasoning which requires that the producer must make the type of goods that will be acceptable to the consumer, then the distribution function must indicate to the production function—

1. What commodities should be produced, and in what quantities, so that the production function can make the necessary arrangements to produce these. In collating data on this point, the distribution function must be guided by—

(a) The economic and other factors operating in the market.

(b) The capacity and other limitations of the production function.

2. What prices can be obtained for these commodities,

so that the production function can be guided as to manufacturing cost limits. It must be noted that the production function has complete control of what may be termed *prime* costs, viz. those relating to raw materials and direct labour, but the distribution function must fix the prices to the consumer. Occasionally, marketing policy may demand that prices are lower than prime manufacturing costs.

3. In what form the commodity is required, i.e. shape, size, design, and other characteristics. These also must take account of the production facilities available.

4. At what rate delivery is required, either for stock or direct to the consumer.

Normally, the most satisfactory way of achieving harmonious co-ordination between the distribution and the production functions in respect of the considerations enumerated above, is by the formation of a Marketing or Merchandise Committee, which meets at frequent intervals, and on which both functions are represented by appropriate executives. The executive responsible for marketing normally operates as an important member of this committee, since he and his staff are responsible for maintaining the essential records and for carrying out such investigation work in the field or in laboratories which will enable the Marketing Committee to make their recommendations on policy to the Board of Directors.

## THE DISTINCTION BETWEEN MARKETING AND SELLING

In many less effectively organized businesses, the responsibilities of the marketing section of the distribution function as opposed to those of the selling section, are not clearly defined. Frequently, the necessity for emphasizing the line of demarcation is so essential as to require the organization

of marketing under the separate control of a functional manager, directly responsible to the Board of Directors. But, normally, and provided the definition of its scope is clear, marketing can well be one of the sub-divisions of a major distribution function.

As has been emphasized, marketing is the aggregation and interpretation of data on which product policy can be based. It implies the procedure necessary to ensure that the product which will appeal to a specified market most effectively will be available as and when required. Selling, on the other hand, is more active inasmuch as it involves the procedure of persuading retailers and consumers to purchase the product. The marketing mentality is one of analysis, investigation, scientific formulation of policy, and subsequent recording and assessing of results. The selling mentality is one of actively putting the resultant product in retailers' shops or consumers' homes. If the two become confused, and lose their separate identity, neither functions effectively.

## CHAPTER VIII

### THE FORMULATION OF GENERAL MARKETING POLICY

THE dangers resultant from the lack of a clearly defined policy—  
Factors important in defining marketing policy—Who should  
define marketing policy?—Selective and general distribution  
—The implications of selective distribution—The effect of  
competition upon distribution policy—Control of selective  
distribution policy—Conservative and progressive marketing  
policies—Implications of a conservative marketing policy—  
Developmental marketing policy.

BASICALLY, before any producing organization can operate effectively and intelligently, its policy, or the objectives for which it will be utilized as a productive unit, must be defined. Prior to the era of scientific control in industry, it was customary for the producing unit to be established first, and policy defined subsequently. Alternatively, policy as such, was never clearly or consciously defined, but varied from time to time according to chance or circumstances. Ideal scientific control requires that policy should be formulated first, then a producing and distributing organization built up adequately and efficiently to implement the determined policy.

In practice, either of two sets of conditions may operate and require a definition of policy—

1. Plant or other production facilities may already exist.
2. Capital may be available for the organization and development of production facilities.

In each of these cases, the need is for the formulation of policy as to how these facilities may be utilized most effectively.

## THE DANGERS RESULTANT FROM THE LACK OF A CLEARLY DEFINED POLICY

A typical example of the dangers resultant from the lack of clearly defined policy is the case of an old-established business, originally organized to produce, say, general leather goods. In the course of time, this business may proceed through the following stages of development—

1. *The first stage* (as organized by the founder) Varied assortments of leather goods are produced on a comparatively modest scale.

2. *The second stage* (as operating under the founder's immediate successors). The business expands, production facilities are extended, but without adequate planning. For example, instead of purchasing certain metal accessories to be used in conjunction with the leather goods, plant is procured to make them. The result may be either an excess of accessories or a proportion of idle plant. It then may be decided to dispose of the surplus of accessories by selling them to other businesses, and production is organized accordingly.

3. *The third stage* (as operating under the second generation of successors). The production of general leather goods becomes subsidiary to the business of producing accessories. The increased sale of accessories requires further extensions to plant. Some of this plant may not be working to capacity at this point. As a result, still more widely divergent goods are produced to keep the plant fully occupied. For example, due to excess capacity of certain presses, it may be decided to produce a range of steel office equipment.

4. *The ultimate stage*. Unless policy has been carefully directed, the business will have developed into a number of what may be completely different businesses,

none large enough to be profitable, and each requiring self-contained and separate organizations for distributing individual types of product.

This type of development will be found frequently if the history of British industry during the last century is studied. Provided the following conditions are observed, the results may not be harmful—

1. The products may be related to one another, and such that the same distribution organization can be utilized for them all. For example, a policy of producing, say, groups of product such as typewriters, steel filing cabinets, and office chairs, would be correct in that the same sales force can be utilized to sell them to more or less the same customers. On the other hand, a policy of producing unrelated groups of products, such as typewriters, domestic utensils, and shop-fittings, well might prove disastrous.

2. The products may not be related to one another so that the same distribution organization may be used for each, but the actual or potential sale may be so great as to justify operating the distributing organization for each one as entirely separate and self-supporting.

Fundamentally, then, the prime problem of a producing entity must be to determine policy not so much in respect of *how* goods are to be produced, but with regard to *what* goods are to be produced, i.e. to define marketing policy.

## **FACTORS IMPORTANT IN DEFINING MARKETING POLICY**

In accordance with the principle of scientific control, which demands that production requirements must be organized according to the absorption capacity of the market, production policy theoretically should be consequent upon the definition of marketing policy. The latter process involves—

1. The determination of what types of products shall be produced.
2. The quantities in which these products (1) are required by the market (2) can be produced by available plant and other facilities.
3. What prices for these products can be obtained.
4. What margins of gross and net profit will accrue at different levels of production volume.
5. How long it will take to achieve these.
6. Whether these profits justify risking the capital involved in setting up or maintaining the necessary production facilities, the distribution organization and the executive and administrative structure essential to operate the business.

Until an exhaustive analysis of these factors has been made, it is impossible properly to define marketing policy. Subject to this stage having been passed, the next steps must be—

1. To determine what ranges within the agreed product types, and what units of sale within these ranges, will be most profitable.
2. To decide which markets should be exploited first, and which left over for future development.
3. To determine the means of exploiting the various markets.

## WHO SHOULD DEFINE MARKETING POLICY?

Ultimately, the responsibility for defining marketing policy must rest with the Board of Directors, but in formulating their decision, they should be guided by an informed interpretation of data provided by—

1. Research experts (economic, statistical, psychological, etc.), in respect of market potentialities and characteristics.

2. Marketing experts in respect of methods of presentation, i.e. method of packing, units of sale, pricing, etc.

3. Production experts as to factory capacity, production costs, etc.

4. Sales experts in respect of the selling organization necessary to exploit defined markets.

5. Propaganda experts as to methods of indirect sales promotion.

6. Warehousing experts as to methods of storage, stock levels, etc.

7. Transport experts as to methods of distribution to the consumer.

8. Financial experts as to the financial implications, i.e. costs, profits, etc. of various aspects of policy.

Normally, along the lines previously described, certain of these experts would form a Marketing Committee, which would consider the problems at issue, and present their recommendations to a General Manager, or a Board of Directors.

## SELECTIVE AND GENERAL DISTRIBUTION

Subject to marketing policy having been determined, one of two alternative methods of distribution may be adopted—

1. **General distribution**, i.e. the marketing of the product through every available outlet, and over the entire extent of the available markets. This policy usually would be most applicable to a product which can be used by all members of the community, such as goods of the convenience type. It would assume distribution and production facilities adequate to achieve such an objective.

2. **Selective Distribution**, or the marketing of the product through a limited number of outlets and in a specific and limited market. This policy would be most applicable when the appeal of the product is limited, viz.

speciality goods, goods for industrial use, etc., or when production and distribution facilities are so limited as to be inadequate to provide for general distribution.

### THE IMPLICATIONS OF SELECTIVE DISTRIBUTION

In practice, most products are distributed on a selective basis, i.e. it is only rarely that *all* available outlets are utilized. Necessarily, certain outlets must be unprofitable, either on account of their size, their financial stability—(capacity to purchase, and to pay for the products) or their accessibility. With scientifically controlled distribution, it is essential that outlets should be carefully selected on the basis of—

1. *Their economic usefulness.* This implies that only those outlets should be utilized which are capable of disposing of adequate quantities of the products at prices profitable to the producer.

2. *Their location in relation to the market.* The outlets selected should be sufficient to cater for the requirements of the market and so that there should be no overlapping in the sphere of each other's operation.

3. *The effectiveness of their management.* This is a corollary of (1), implying that the management of each outlet should be such as to ensure financial stability and efficient selling. Under certain circumstances, it may be desirable for the producer to instruct the management of his outlets in methods of business control and the technique of selling.

### THE EFFECT OF COMPETITION UPON DISTRIBUTION POLICY

In a market where one producer competes freely against another, distribution will tend to be less controllable, and less selective. Each individual producer normally will

endeavour to obtain the greatest possible spread of distribution so that his goods will be available in every outlet, thus even, perhaps, crowding out competitors with less resources, or whose selling methods are less effective. To do this he may have to offer terms to outlets, which will be more attractive than those of his competitors in respect of price, general services, etc. This may have either or both of two results—

1. The producer will not be distributing his goods on an economic and profitable basis.

2. Due to higher margins of profit which the producer may offer him, the retailer may be tempted to “cut” his prices to the consumer.

The effect in any case must be an excess in the cumulative stocks of the type of commodity which are being held by outlets. Even in a free and fiercely competitive market, selective distribution ultimately must prove the more effective, but would imply that—

1. The producer must offer to selected outlets a better range of merchandise, with regard to quality for price, than his competitors.

2. The range of merchandise offered, must be more suited to the requirements of the market than are those of competitors.

3. The producer must give his outlets effective support in the form of advertising, services such as delivery, etc., and possibly even financial assistance.

Assuming that the producer is organized to operate so that the proprietors of desirable outlets are anxious to stock his commodities, then he is in a position to impose his own terms upon them as conditions of supplying them with his goods. These terms invariably will cover the quantities which each outlet should stock and dispose of within specified periods, prices to the consumer and conditions of

sale generally, both as from producer to retailer and from retailer to consumer. For example, a motor car manufacturer whose products are so keenly demanded by the public that distributors are competing with each other to be appointed agents, is in a position to insist that the agents who retail his cars should guarantee to dispose of a specified minimum number of vehicles annually, that they should pay him according to rigidly defined terms, and sell to purchasers at standard prices, provide specified service facilities, and so on.

### CONTROL OF SELECTIVE DISTRIBUTION POLICY

All effectively controlled distribution must be essentially selective. So far, only the implications of selective distribution—achieved largely as the result of independent effort on the part of producers selling in competitive markets—have been considered. Selective and controlled distribution is most effectively achieved in a market which has ceased to be competitive by reason of—

1. *The operation of agreements made by producers through their trade associations.* These normally would apply more especially with regard to prices, but may go further in establishing quotas which each member of the association is permitted to sell in specified areas. This may imply that members of the trade association establish a pool for the commodity to which each contributes a quota and from which retailers or consumers are supplied on a controlled basis.

2. *The formation of a combine or monopoly consisting of all producers of the commodity.* This is an extension of the principle described in (1). Members of a trade association inevitably can only be loosely bound. The most drastic penalty that can be imposed for infringing the terms of their mutual agreement is expulsion from the association. The effectiveness of any such penalty is

dependent upon the strength of the association, and the extent of its influence upon retail outlets and consumers. In the case of a combine or monopoly, members are bound together by financial interests, and frequently by higher executive direction. Thus the possibilities for regulation and control are greater.

3. *The institution of a system of registration of retail outlets.* This may be either at the instigation of producers, or because retailers have grouped themselves together to protect their own interests. In the first case, producers can impose terms upon the retail outlets. In the second, the latter can impose the terms, but in both instances, certain standards are required from retailers as a condition of registration.

4. *The direct control of retail outlets by the State.* Control may be exercised by the State either through a trade association or "corporation" as an extension of (1) above; by the State establishing itself as a producer on a monopoly basis as (2); by the State sharing in the finance of production by providing a subsidy; or by the State legislating to make registration of retail outlets compulsory as in (3).

By these means distribution policy is controlled in varying degrees to the extent of fixing—

1. Which retail outlets, and how many of them, shall be used.

2. The conditions under which these outlets shall receive stocks of the product and in turn distribute them to the consumer.

3. The sources from which outlets will receive their supplies.

4. The quantities of supplies they will receive, hold as stock, and be permitted to sell.

Only when these conditions obtain, and are effectively

operated, can distribution be said to be controlled on an adequate basis ; such an ideal cannot be possible in a freely competitive market. Proper state regulation or control by monopoly are the sole means by which they can be implemented. Normally, to attempt to reach these objectives through the operation of trade associations and agreements would be fruitless over any long period of time.

### CONSERVATIVE AND PROGRESSIVE MARKETING POLICIES

If the term “conservative” is employed in its literal sense, as applicable to marketing policy, i.e. to preserve markets, then the types of marketing policy may be according to main categories—

1. The conservative policy which assumes that already all available markets have been fully exploited, and the object of which is to ensure that consumption is maintained.
2. The progressive or developmental policy which aims to increase consumption either by developing new markets or else by increasing consumption in existing ones.

### IMPLICATIONS OF A CONSERVATIVE MARKETING POLICY

In the case of old-established industries, the markets frequently have reached absorption-point. This condition favours and even requires rigid regulation of distribution through the formation of a monopoly or by State intervention. There is little justifiable scope for competition, since this can only result in one producer acquiring a share of the market held by another, often by means of expensive price concessions, or by offering elaborate services which the industry cannot afford. We must consider—

1. *The trend of vital statistics.* Old consumers of any

specific product are continually dying; new potential consumers are born. It is important that the latter group should be educated into the uses of the product if consumption is not to fall away over a period of years. If the ratio of deaths over births is excessive in the market, then little can be done to maintain consumption. A declining population trend in a market, due either to mortality or emigration to other areas, also must inevitably affect consumption.

2. *The effect of substitute products.* Although the market may have been catered for, and completely exploited in favour of one type of product, there can be no guarantee that substitute products will not be made available by other producers. The market for heating and lighting media is an example of this. Here gas and electricity interests are competing with each other for a share of the market, which, in one sense, was originally the prerogative of the gas interests. Another example is the almost complete replacement of horse-drawn vehicles by the motor-car. The result has been the disappearance of industries connected with the former.

3. *The effect of changes in fashion.* The uncontrollable factor of fashion may have a drastic effect upon an industry, for example, the fashion of women wearing short hair was a disaster for the producers of hairpins. Similarly, the introduction of suède shoes for women has had an effect upon the consumption of shoe polish.

4. *The evolution of new social habits.* As conditions of living change, or improve, so the markets for products which were originally developed to fulfil old established needs, will tend to contract. With the introduction of electricity and gas for lighting, the market for candles and paraffin dwindled away. The diminishing size of the Sunday joint which can be sold by butchers is the result

of a trend towards smaller families, and a change away from the heavy Sunday dinner at home.

An old-established industry often may be powerless to do anything, even to retain the markets which have been available for their products. The alternatives to complete decimation by the forces of progress are for the industry to develop new products which can be produced by existing plant, or to install completely new plant, and market a new range of commodities. For example, the alert producers of horse-drawn vehicles commenced to make motor-cars, shoe-polish manufacturers marketed products to clean suède shoes, and so on.

## DEVELOPMENTAL MARKETING POLICY

In practice, all distribution policy should be developmental if an industry is to remain healthy—provided development proceeds on a controlled and not haphazard basis. The developmental policy implies that—

1. A continuous check must be kept of consumption in relation to population and fashion trends, and on social habits and the intrusion of substitute products.

2. Action must be taken continuously to counteract any diminution of consumption revealed as the result of (1) by developing new products or modernizing old ones to meet changing conditions.

3. Action as outlined in (2) must take into account plant potentiality.

4. Sales promotion and propaganda methods must be employed to maintain, and to extend consumption of, the current range of production.

In the succeeding chapters it is planned to indicate how distribution policy may be implemented specifically by the marketing, production and selling functions.

## CHAPTER IX

### PRODUCTION AND ITS RELATION TO MARKETING POLICY

THE production plan—The relation of factory output to budgeted sales—Determination of design characteristics—Merchandizing units—Operation of the budgetary control system—The implications of basing the production plan on the sales budget.

ASSUMING the Marketing Policy has been determined, i.e. it has been decided what types of product are going to be marketed on the one hand, and on the other, what are the potentialities of the market for absorbing these, the next stage prior to the implementation of marketing policy is to plan production so that supplies of the commodity will be available to potential consumers as and when required.

### THE PRODUCTION PLAN

It is beyond the scope of this book to discuss the detailed execution of the Production Plan, i.e. the procedures governing the processes of actual manufacture, but the broad principles involved in the Production Plan as such, are the joint concern of the marketing, the selling and the manufacturing functions. Normally, these should be discussed and agreed by the Marketing Committee and would be concerned with—

1. The gross output for a specified period as required by the marketing plan.
2. The rate of delivery from the factory to the warehouse, or, in the case of industrial goods, and goods made to order, the dates when these are required by the customer.
3. At what costs output can be made available to the sales force at various levels of production.
4. In what units (quantities and packings) output is to be sold.

5. At what prices output can be distributed, and what gross and net profits these will represent.

6. What stocks should be held in the warehouse to service deliveries.

The latter two of these considerations are of such importance that they are dealt with in separate chapters. The problems of prices to distributors and ultimate consumers and the profits they represent have only a limited bearing on the production plan except when, for various reasons of policy, they must be so adjusted that they are below the prime cost of production.

## THE RELATION OF FACTORY OUTPUT TO BUDGETED SALES

Estimates of gross output required from a producing unit for a given period may differ from the sales budget for five chief reasons—

1. The sales budget may refer to orders booked for delivery beyond the production period. For example, the sales budget for a period January to December may include orders to be delivered in the following year, and of which the immediate production plan need not take account. For this reason, it must be clearly understood whether any sales budget refers to orders or actual deliveries.

2. There may be a carry-forward of orders to be delivered from the previous period. These should be included in the current sales budget, if the latter represents actual deliveries, and not orders booked.

3. Warehouse stocks may have been depleted below the safety level during the previous period, due to output having lagged behind sales to an unanticipated extent. The production plan may have to provide for output to make good this deficiency, in addition to providing for servicing future budgeted sales.

4. Similarly, due to sales having lagged behind output to an unanticipated extent, warehouse stocks may be excessive, in view of future sales possibilities. Under these circumstances, the production plan must provide for a slowing down of output so that stock levels can be reduced.

5. As a matter of policy, it may be desirable to conclude the future period for which sales are budgeted, with warehouse stocks either lower or higher than they were at the commencement of the period, regardless of sales estimates. The production plan must take due account of this.

When the output required to service sales and for adjusting warehouse stocks has been determined, this must be considered further in relation to seasonal demands. When the sales of a commodity are seasonal, if the warehouse functions as an effective reservoir between sales requirements and output, then it should enable production to proceed at a more or less steady rate throughout the year. This implies that, during off seasons, stocks should accumulate to service peak period sales. Alternatively, for reasons of policy, it may be desirable to increase output, and build up warehouse stocks against future eventualities.

Thus it is the responsibility of the distribution function firstly to budget sales, and warehouse stocks, as required for the operating year, then to set stock levels, usually month by month, so that production capacity and output can be adjusted to sales requirements. Once this has been done, it is for the production function to deliver output as laid down in the plan.

## **DETERMINATION OF DESIGN CHARACTERISTICS**

Prior to the scientific era of distribution, as mentioned in previous chapters, the accepted principle was that the sales

force should sell what the factory produced. More recently, it has been contended that the factory should only produce what the sales force can sell, i.e. make exactly what the market requires. The latter is an ideal which in practice is difficult to realize in its entirety. The limiting factor is the capacity of plant to produce goods with characteristics precisely in accordance with consumer needs.

The functions of the designer are—

1. To interpret consumer needs by embodying them in the product to be manufactured.
2. To present the product in the form that will most appeal to consumers.
3. To develop product specifications embodying (1) and (2), which the available plant can produce.

The effective designer is not the one who can present an ideal product from the viewpoint of satisfying consumer needs, or conforming to artistic standards, or which has specifications such that the factory can make it very easily. His work must represent a combination of all three factors by being based upon—

1. Data relative to the needs of the market, contributed by those with marketing knowledge.
2. His own creative interpretation of the form in which the product should be presented, supplemented by the results of scientifically planned and executed tests of its acceptability to potential consumers.
3. His technical knowledge of plant capability, or alternatively, his initiative in suggesting how plant may be utilized in new ways.

## MERCHANDIZING UNITS

The problem of in what units the product should be offered for sale is perhaps of an importance equal to that of its

external physical characteristics. The factors relevant to determining the size of merchandizing units may be considered according to two categories—

**1. Factors important to the distributor**

(a) The quantities it is convenient to hold as stock units—dozens, grosses, etc.

(b) The quantities it is convenient to display and distribute to customers.

**2. Factors important to the consumer**

(a) The quantities it is convenient to purchase, i.e. in relation to the unit price the consumer is able and willing to pay.

(b) The quantities the consumer wishes to buy at a time, i.e. can use within a specific period, or can keep in good usable condition.

The sizes and quantities involved in merchandizing units, and also their physical shape in certain cases, directly affect packaging machinery. If, for any reason, the requirements of distribution call for changes in the merchandizing unit, fundamental and expensive changes in plant may be necessary. For this reason compromise may be desirable between practical production possibilities and the theoretical ideal called for by market needs. Obviously, the closer these two can be brought to each other, the greater will be the ultimate advantage.

The extent of the range of merchandizing units or sizes has an important bearing upon whether production is profitable or unprofitable. If merchandizing units are too small, serious inroads may be made into profits. For example, the cost of distributing milk in half pint bottles is very much higher than distributing the same quantity in pint bottles. The introduction of the half pint bottle was a direct attempt to cater more effectively for consumer needs, and was necessitated by the highly competitive nature of a market

where the distributors were forced to offer greater services in order to retain their customers. The production and the distribution functions must establish merchandizing units on the basis of a compromise between what will reasonably satisfy the consumer, and what can be manufactured at a reasonable cost and profit margin.

### OPERATION OF THE BUDGETARY CONTROL SYSTEM

Once the range of merchandizing units has been determined, the distribution function, through the Marketing Committee, must break down the sales budget, and the warehouse stock budget, from a gross total as represented by values, into quantity budgets based on merchandizing units. These in turn must be transposed by the production function into a detailed output budget so that the purchase of raw materials, etc., may be initiated, and labour requirements legislated for.

It is obviously impossible in this chapter to give more than a brief outline of the principles involved in co-ordinating the sales budget with the production plan. The broad procedure is firstly to formulate the sales budget for a given period, usually a whole year, covering the entire range of products marketed. This represents a plan to which executives of the distribution and production functions are required to work during the period. However, regardless of how carefully any such plan can be prepared, circumstances inevitably arise to interfere with it. Thus the budget normally is reviewed at monthly, or more often at three-monthly intervals, modified for the remainder of the year in the light of actual results, and the executives concerned informed of any changes that may be involved.

The budget or plan for the operation of a business during a set period of, say, one year, usually is considered according to the following divisions: Sales Budget; Production

Budget ; Manufacturing Material Budget ; Financial Budget ; Direct Labour Budget ; Indirect Labour (factory) Budget ; Stores Budget ; Administration Budget ; Plant and Equipment Budget.

The first stage in applying any system of budgetary control is to consider its *financial implications*. Basically, this can only be done in relation to a forecast of Invoiced Sales and Receipts from Sales.

As previously mentioned, there must always be a lag between these two, but it is on the basis of invoiced sales, taken in conjunction with stock positions at the beginning and the end of a budget period, that production plans must be made. However, these must also be brought into relation with anticipated receipts for the period so that excessive credit will not be required to finance operations.

Thus, the basis for any budget must be—

1. An agreed yearly budget of invoiced sales expressed in values at selling price, usually on the basis of product groupings. This budget eventually should be sanctioned by the management.
2. A breakdown of this yearly budget of invoiced sales into month by month sales for each product group.
3. A breakdown of monthly estimated sales into estimates of material, labour, burden and profit, i.e. a forecast of monthly profit and loss accounts for each group, normally based on averages according to experience.
4. A comparison of anticipated receipts (month by month) from the above sources with the expenditure involved on material, burden and labour.

To achieve the latter two of these steps, the following budgets should be prepared—

- (a) Manufacturing materials required.
- (b) Anticipated burden, subdivided into administrative

and manufacturing expense (indirect labour, supervision, repairs, insurance, spoilage, stores).

(c) Anticipated expenditure (depreciation) on plant, equipment, etc.

(d) Estimated selling expenses.

(e) Anticipated direct labour costs.

Subsequent to the above are considerations relating to the detailed planning of activities within the factory to meet warehousing needs in view of the stock position at the beginning of the budget period. For the purposes of major production planning within the budget scheme it is necessary to formulate—

1. A firm gross production forecast month by month for the period analysed into burden, material, labour, profit, for each group. This, when approved by management, represents the covering sanction for activity during the agreed period, but normally is revised monthly and the remainder of the year's programme adjusted accordingly.

2. The analysis of the gross production forecast into sub-assembly units and their parts which—

(a) Can be put into production.

(b) Cannot be put into production until further information from customers is available, or development work carried out.

3. The summarizing of these results into totals of parts which can be manufactured at once (i.e. individual components) and the determination of month by month demand for these.

4. Comparison of the totals of common parts and parts which can be made at once, required to meet the budget, with existing part stocks and the determination of part stock levels.

5. Preparation of component and assembly schedules by the stock record section to cover the individual parts

revealed as needed to maintain stock levels and meet sales demands, bearing in mind their relation to factory capacity, economic manufacturing quantities, and required delivery dates.

6. The use by the stock control section of these schedules to—

(a) Requisition the purchase of materials for manufacturing purposes, and

(b) Issue orders on the works to initiate manufacture of the parts as authorized.

### THE IMPLICATIONS OF BASING THE PRODUCTION PLAN ON THE SALES BUDGET

The system of basing all production activities on the sales budget implies the bringing of every item of manufacture and assembly within the scope of the budget. It also implies the determination of both part and finished stock levels in accordance with demand as assessed by an examination of market potentials to ensure that materials and finished goods are available as and when required.

Thus the major problem of the production function becomes to regulate the flow of manufactured goods. Properly operated, the system of formulating a production budget based on a sales budget for a given period, and the issue of authorizations for manufacture for the same period, together with a proper routine for stock recording and control, should achieve this.

## CHAPTER X

### PRICE POLICY AND PRICE CONTROL

**BASIC factors important in defining price policy—**The one price policy—The variable price policy—Methods of price fixing—Price fixing by direct control—Indirect price fixation—The objectives of price control.

**SUBSEQUENT** to the determination of the range of products to be marketed, and the rate at which they should be produced to maintain warehouse stocks at required levels to service budgeted sales, the next stage with which distribution is concerned is the formulation of price policy. It may be necessary to consider this from two angles—

1. The prices which will be charged to distributors.
2. The prices at which distributors will sell to consumers.

In the case of advertised, branded goods, the manufacturer can exercise a measure of control over both these aspects, subject of course to the practices of competitors. The prices at which he may sell to distributors to some extent are governed by the competitive situation, but also by the profits he is prepared to allow distributors, in consideration of services he may wish them to offer consumers, or the sales promotional efforts he may require them to make. The greater part of this chapter discusses principles which apply equally to policy in respect of prices to distributors, and prices to consumers.

### **BASIC FACTORS IMPORTANT IN DEFINING PRICE POLICY**

Before price policy can be defined, it is essential that certain basic factors should be understood and agreed. These are—

1. *The unit according to which the goods are to be sold.* This includes a clear definition of the meaning of these units, e.g. if goods are to be sold by the dozen, whether the dozen is the standard or the so-called "baker's dozen" of thirteen, or, if woollen cloths are concerned, whether measurement is net or woollen measure, etc.

2. *The sum to be paid for the specified unit.* If payment is to be made in foreign currency at what rate of exchange, etc.

3. *The times and places at which payment is to be made.* This would include a statement of discounts, interest on overdue accounts, freight and other charges and conditions.

4. *The times and places at which delivery is to be made.* Including method of delivery, packing, etc.

5. *The specification of the quality of the goods to be delivered* and the method by which these specifications are to be checked, i.e. by inspection, by sampling or by description.

## THE ONE-PRICE POLICY

In marketing advertised branded goods, and especially in connexion with merchandise of the convenience type, the one-price policy, both to distributors and consumers, is the most commonly used to-day. This system implies that universal wholesale and retail prices for the product are established, and it is offered at these prices respectively to distributors and consumers.

The advantages of the one-price policy are—

1. The purchaser knows what price he is expected to pay, without going to all the trouble of negotiation and bargaining.

2. He also knows that the same commodity cannot be purchased elsewhere from the same producer or distributor at a different price.

The disadvantages are—

1. The one-price system may not be adequate to meet the demands of a specific market, e.g. it may make no allowance for the varying requirements of a potential purchaser, i.e. for quantity, quality, etc.

2. It makes no allowance for varying market conditions, i.e. demand in relation to production. The significance of this will be discussed more fully later.

3. It makes no allowances for differences within the market, i.e. the capacity of the potential purchaser to pay cash or otherwise, the delivery or packing needs of the purchaser, etc., thus actually defeating its own object of fixing one price for all.

4. The one-price policy commits the seller regardless of his own costs.

## THE VARIABLE PRICE POLICY

This policy is principally applied to unbranded goods as sold to merchants or retailers by producers. Frequently, however, raw and accessory materials, and finished goods, sold to merchants or retailers are distributed on a variable-price basis, i.e. prices, discounts, terms of sale, qualities, etc., are subject to considerable negotiation.

The advantages of this policy are the converse of the disadvantages of the one-price policy and similarly its disadvantages are the advantages of the latter.

## METHODS OF PRICE FIXING

Prices may be fixed by the producer by direct methods, i.e. by setting certain standards over which he himself has, or can develop a comparatively complete measure of control. Alternatively, he may permit his prices to vary according to market conditions of supply and demand.

When demand is stable, conditions obviously favour the fixation of prices by direct control. When demand is elastic, this is more difficult. In the case of convenience goods, or the raw materials necessary to produce them, demand will tend to fluctuate less than in the case of luxury goods, sales of which are dependent upon economic conditions and fashion trends.

### PRICE FIXATION BY DIRECT CONTROL

Price fixation by direct control operates when the producer himself determines what his price levels are going to be, and himself controls any variation in them. Prices may be directly controlled by determining what the ultimate consumer is able and willing to pay, and so working backwards to the prices at which the commodity can be made available to distributors. Alternatively, after production costs have been computed, prices to distributors and consumers may be established by adding on a certain percentage of profit. Whichever method is adopted, prices cannot entirely be determined by arbitrary means. The following principles must be borne in mind.—

1. *The fixed prices must place the commodity within the reach of an adequate section of the market.* If the prices fixed are beyond the paying capacity of the market, then the demand for a commodity will diminish. Even under the ideal conditions of State regulation of prices, if these are fixed at a higher level than would normally be prudent in a free market, the result eventually must be an excessive surplus of supplies due to the inability of the market to buy, and in due course the fixed prices must collapse.

2. *The fixed prices must bear a profitable relation to production costs.* After production costs have been assessed, a standard percentage may be added to provide for

distribution costs, overheads, and an adequate net profit. If for any reason this margin is insufficient, it is obvious that financial difficulties must ensue.

3. *The prices charged by competitors.* The method of fixing prices to distributors and consumers by adding a standard rate of profit to prime production costs, is more frequently used than any other, but in a competitive market, its success is dependent upon whether the production costs represent the costs of efficient production, as assessed externally by the costs of competitors, and whether the percentage added for overheads bears a similar relation. If, after prices have been fixed on this basis, they prove to be in excess of those prevailing in the market, some reorganization of the business with a view to reducing production, distribution, and overhead costs is essential if sales are to be obtained in any volume. Alternatively, and for reasons of policy, competitors may have reduced prices beyond profit earning levels. If this is so, the producer must consider whether he is justified in doing likewise, or whether he should pursue a prudent price policy in the hope that competitors will eventually be forced to raise their prices or go out of business.

4. *Ruling prices* must be taken into account, e.g. C.I.F., C.O.D., F.O.B., etc., discounts.

5. *The prices must be accepted by purchasers as reasonable.* There are certain price levels, often determined by long established custom, which purchasers consider reasonable, and are willing to pay for certain goods or services. If goods are offered at prices above this level, they will have an adverse effect upon sales. If they are offered below these levels, the volume of sales will tend to be no greater than if the established prices were charged.

6. *The margin offered to distributors must be acceptable to them.* If the goods are distributed for resale, the margin

to be added by the distributor to the ultimate consumer must be taken into account. Unless the goods are branded and advertised so that sufficient consumer demand has been created for the producer to be more or less independent of distributors' goodwill, then, normally, he must provide for a sufficient margin of profit so that distributors will be interested in promoting the sale of his goods.

### INDIRECT PRICE FIXATION

Indirect price fixation occurs when the producer operates his price levels according to conditions of supply and demand in the market in which he operates. The result may be based upon direct offers made to him by distributors, or consumers, or upon the more primitive method of submitting the commodity to public auction. Supply in relation to demand may vary according to—

1. *The incidence of natural factors, such as the effect of seasonal conditions.* This is particularly important in respect of raw materials.

2. *The economic factors determining the prices obtainable,* i.e. the prosperity of the potential market, thus making it attractive or otherwise for the producer to produce on a large or small scale, or at all.

3. *Speculative activities* on the part of either distributors or consumers, i.e. hoarding, forward buying, etc.

These variations obviously may be controlled by regulation at the source of supply or by intelligent regulation at the intermediate stages of distribution.

### THE OBJECTIVES OF PRICE CONTROL

Prior to the era of scientific marketing, price control normally was not exercised with any objective more explicit than the obtaining of an adequate profit for the producer. However, with the application of scientific principles to

solve the increasing complexities of present-day problems of distribution, prices began to be controlled to achieve any or all of three objectives, viz—.

1. **The clearance of supplies.** When stocks are tending to become excessive prices may be reduced to bring the commodity within the scope of a larger potential market, or alternatively, to encourage current users to consume more of it. By this means, demand can be stimulated, and stocks reduced, so freeing finance which otherwise would be frozen. In varying prices for this purpose due consideration must be given as to whether it will be profitable or otherwise to do so.

2. **To eliminate short-term fluctuations.** If prices are not controlled, and are dependent solely on variations in supply and demand, fluctuations may occur even as from day to day, to the consequent inconvenience of distributors, who, unless they possess sufficient acumen to forecast market variations, may suffer serious losses. Further, consumers can never be certain what they will be called upon to pay.

3. **To eliminate seasonal variations.** Much the same factors apply as in the case of short term fluctuations, except that the regulation of wholesale stocks should function to eliminate seasonal variations in the ratio of supply to demand. The levels of such stocks should be raised or lowered by the intelligent application of the procedures described in (1) above, i.e. price regulation.

From the above, it will be appreciated that price control has a very direct effect upon warehouse stock levels. This aspect is discussed further in the next chapter.

## CHAPTER XI

### CONTROLLING WAREHOUSE STOCKS

DIRECTIONS in which control may be exercised—Financial control of warehouse stocks—Method of planning physical stocks—The Model Stock Plan—The operation of the Model Stock Plan—The Model Stock Plan and price control—Records to implement the Model Stock Plan.

FREQUENTLY it has been emphasized in the preceding chapters, that warehousing is the crucial stage in the chain of distribution. If control of warehouse stocks by quantity, by price, by total values, can be exercised intelligently, then much will have been done to simplify the problems of distribution. If all of a particular type of commodity *must* be stored in a warehouse under State regulation, then, if the control is properly exercised, ideal conditions should operate for the reduction of surpluses and deficiencies to a minimum.

### DIRECTIONS IN WHICH CONTROL MAY BE EXERCISED

From the point of view of production, the main considerations from which warehouse stocks may be controlled, are the period to period intake of the warehouse, i.e. output required of the factory, and the production costs of these. These factors have been considered in detail in Chapter IX. Here, we consider the viewpoints from which the distribution manager and the comptroller or accountant are interested.

*The Distribution Manager's function* is to decide ranges and prices of merchandise, and maintain stocks of them so that the needs of his customer will be satisfied.

*The Comptroller's function* is to maintain records and controls which will reveal to the management whether the business is operating profitably or not, apart, of course,

from his other responsibilities of paying bills, and receiving customer's money.

Below are summarized typical aims of the Sales Manager compared with those of the Comptroller or Accountant. These are detailed on the assumption that the Distribution Manager aims to operate solely from the viewpoint of the customer, and that whatever scientific control is exercised will proceed from the Comptroller or Accountant.

#### AIMS OF THE DISTRIBUTION MANAGER

To satisfy all customers.  
To stock the largest possible range of goods.  
To obtain turnover by reducing prices, if necessary, to meet competition.  
To control units, i.e. articles in stock.

#### AIMS OF THE COMPTROLLER

To operate at a minimum capital investment in stocks.  
To obtain maximum reasonable gross and net profit.  
To control *value* of stock, regardless of quality or quantity.

The above shows that neither the technique of the Accountant, nor the technique of the Sales Manager out to obtain sales at all costs, can maintain stocks in a healthy condition and so ensure the progressive development of a business. The Accountant's control is financial and objective—the Sales Manager's control is physical and definitely biased towards catering for all the prejudices, preferences, and demands of his customers. To progress a balance must be maintained between these two points of view.

### FINANCIAL CONTROL OF WAREHOUSE STOCKS

From the viewpoint of financial control of stocks, two objectives must be achieved, namely—

1. *An adequate volume of turnover* must be obtained by carrying the lowest average value of stocks consistent with satisfying the customer's needs.

2. *An adequate rate of net profit*; this implies an adequate rate of gross profit, and also a reasonable level of overheads in relation to turnover volume.

Ultimately, of course, the important factor is net profit. When fixing prices for the commodities produced, the Marketing Committee must be guided by the margins of net and gross profit required by the Comptroller to operate the business on a profitable basis. While measures are being taken by the Comptroller to control stocks *financially*, at the same time other measures must ensure that stocks are *physically* healthy.

A stock may be well balanced at the beginning of a season, immediately after stocktaking, but within a very short time, from the viewpoint of being comprised of saleable units, may degenerate into a very unsatisfactory state.

## METHOD OF PLANNING PHYSICAL STOCKS

Proper control of warehouse stocks from the viewpoint of the *quantities* of different lines, can only operate to maximum advantage when the physical characteristics of the stock ranges are just as carefully planned as the system for controlling them in terms of the sterling values they represent. In the typical business of the pre-scientific era of distribution practice, the physical planning of stocks normally proceeded as follows—

**Stage I.** The Production Manager considered that various lines should be manufactured and stocked.

**Stage II.** Investigation was made of the condition of stocks, and orders placed to fill up gaps as the Warehouse Manager, the Production Manager, or the General Manager, considered desirable.

**Stage III.** Prices to customers for the goods ordered were usually based on standard prices in the case of

branded goods, or were arrived at by the simple process of adding a percentage to the cost in the case of unbranded goods.

The basic weakness of this method was that prices were almost wholly based on production costs, and upon these were fixed the selling prices at the various points in the chain of distribution. The disadvantages of this situation have been reviewed in the previous chapter.

### THE MODEL STOCK PLAN

A plan for controlling physical stocks, known as the Model Stock Plan, has been in use for several years in American departmental stores. It is, however, an ideal system for regulating warehouse stocks of any kind. The Model Stock Plan as adapted to apply to wholesale stocks, reverses the procedure outlined in the preceding paragraph, and operates in the following stages—

**Stage I.** The Marketing Committee first decides, after investigation, at what prices the various types of merchandise with which they are concerned can be sold.

**Stage II.** The Committee then sets a limited range of prices for each type of merchandise, such as will be most acceptable to the type of customer for whom the business wishes to cater.

**Stage III.** Finally, the Production Function is requested to produce merchandise which will represent good value at the prices so fixed, and sales and output are budgeted accordingly.

The results of this method of planning stocks are four in number—

1. Price ranges of stocks are limited. It is easier and more economical to control a few ranges than it is to control many. Actually, the value of the stocks required under this system is normally much less than under the

old system, i.e. rate of stock turnover will tend to be increased.

2. Stocks will be priced more in accordance with consumer's requirements. Thus sales will be facilitated, and the danger of "dead" stocks will be considerably reduced.

3. The Distribution Function will be in a better position to budget for larger orders within a given range, and so enable the Production Function to reduce costs, or, alternatively, to manufacture a better quality of merchandise.

4. Instead of having a large number of price ranges, and a scrappy selection of merchandise available, the company's salesmen will have a very limited number of price ranges, but each containing a comprehensive selection of merchandise.

### THE OPERATION OF THE MODEL STOCK PLAN

Normally, consumers may be classified into three groups, viz.—

1. Those who require to make a selection from the cheapest range of merchandise.

2. Those who wish to make their selection from medium priced ranges of merchandise.

3. Those who wish to buy from more expensive ranges.

In practice, these ranges overlap to a considerable extent, i.e. the goods from which "cheap" customers wish to make their selection will often extend into the range from which medium price customers will purchase. To illustrate this point, toilet soap may be taken as a typical example. Under the Model Stock Plan, the procedure of determining the price ranges for stocks may be summarized as follows—

The *cheap* customer will buy—

Sometimes at 1d. per tablet.

Generally at 2d. per tablet.

Sometimes at 3d. per tablet.

The *medium* custom will buy—

Sometimes at 2d. per tablet.

Generally at 3d. per tablet.

Sometimes at 6d. per tablet.

The *superior* customer will buy—

Sometimes at 3d. per tablet.

Generally at 6d. per tablet.

Sometimes at 1s. per tablet.

Listing these price ranges, the following result is obtained—

"CHEAP" CUSTOMER BUYS AT	"MEDIUM" CUSTOMER BUYS AT	"SUPERIOR" CUSTOMER BUYS AT
1d.		
2d.	2d.	
3d.	3d.	3d.
	6d.	6d.
		1s.

Thus 3d. per tablet is a price that appeals to all three groups of customer. The stock then would be planned to allow for—

*The widest selection* of toilet soap at a price of 3d. per tablet.

*A slightly smaller selection* of toilet soap at 6d. and 2d. per tablet.

*A limited selection* of toilet soap at 6d per tablet for the occasional cheap customer.

*A limited selection* of toilet soap at 1s. per tablet for the occasional superior customer.

The application of this method of stock planning to different types of merchandise may be less simple than the above illustration. Difficulties also may be encountered in changing the characteristics of existing stocks until they conform with a Model Stock Plan. However, assuming interested co-operation on the part of the Production and Distribution Functions, after the early experimental stages have been passed, the system should operate to reduce

stocks to a level considerably below what otherwise would be the case.

### THE MODEL STOCK PLAN AND PRICE CONTROL

The effective operation of a model stock plan has a very direct bearing on the problems of price control as described in Chapter X, and the technique of price regulation in its relation to supply and demand.

It has been noted how, during the periods when supply is in excess of demand, it is often the function of the warehouse—whether that of the producer, the wholesale merchant, or the retail distributor—to operate as a reservoir for the storage of surplus production. Circumstances may militate against this surplus being disposed of as quickly as may be desirable and so it is in danger of becoming stagnant. We have seen how, if the product will not move at one price level, then prices may be lowered to increase demand. If it will not move at the new price level then, rather than permit it to remain unsold, it may be policy to reduce it further so that it will sell readily.

It is no criticism of any system of warehousing that stocks should accumulate above desirable levels. The fault occurs when it is not realized that stock levels should be lowered, and prompt action is not taken accordingly.

Under the Model Stock Plan, if stocks cannot be reduced at one price level, then the price should not be reduced in an arbitrary way. It should only be reduced to the next price range within the Model Plan. If stocks are not cleared at this level, then they must be reduced to the next, and so on. To make reductions to an intermediate level is only to revert to the old principle of haphazard price levels. Normally, such reductions should be automatic. If stock levels cannot be cleared within a specified period, prices should be automatically reduced.

## RECORDS TO IMPLEMENT THE MODEL STOCK PLAN

To ensure that warehouse management should know the state of stocks, and so that those responsible for marketing plans can take appropriate action with the desired degree of promptness with regard to filling up any gaps caused by abnormal demand, or variations in supply from sources of production, suitable records must be kept of how stock levels conform to the model plan set for the period under consideration.—

1. The rates at which different articles are flowing in and out of the warehouse.
2. Which products, or items within a range of products, are tending to be understocked, and which are tending to become overstocked.
3. The time needed to replenish stocks.
4. The seasonal variations in demand.
5. Changes in demand from period to period due to changes in consumer habits.

These records normally are kept on suitably designed cards by means of which those responsible for executing policy in respect of warehouse stocks are enabled to maintain a continuous check on requirements, and to inform the Marketing Committee when action is essential to keep the stock position healthy. •

## CHAPTER XII

### THE MODERN CONCEPTION OF SELLING AND SALES MANAGEMENT

**PERSONAL** and non-personal selling—The objectives of personal selling—The objectives of non-personal selling—The function of sales management—The function of the sales manager—The operation of sales control—Types of selling—Conception of sales management in relation to controlled distribution.

**MARKETING** has been described as the process by which products are developed, produced, and made available in their relation to actual or potential consumer demand. Selling, on the other hand, has been said to represent the effort made to influence intermediaries to be willing to distribute the product or to influence the consumer to buy it.

#### **PERSONAL AND NON-PERSONAL SELLING**

Selling as the executive aspect of marketing, may be of two types—

1. **Personal selling**, in which an effort is made by the salesman personally to obtain orders from stockists or consumers.
2. **Non-personal selling**, in which the object usually is to make the consumer favourably disposed towards the product and so create in his mind a desire to purchase, as soon as the opportunity is provided for him to do so.

#### **THE OBJECTIVES OF PERSONAL SELLING**

Personal selling normally is executed by salesmen operating under the direction of a Sales Manager, who should control their activities so that they obtain a maximum volume of orders at a selling cost commensurate with the margin between the cost of production and the price paid by consumers.

If the industry is State-controlled, or is governed by any of the systems of regulation described in preceding chapters, the objectives of the salesman obviously must vary from those when he is operating in a free and competitive market. However, there are certain functions which he must carry out regardless of the peculiar nature of the market. These are—

1. *To obtain specific orders from consumers.* He may make no attempt to influence the size of the orders he receives, or to influence consumers whether they should purchase or not. On the other hand, it should be the function of the salesman to stimulate demand as much as possible when warehouse stock levels are high, but at the same time endeavouring to avoid merely transposing excess warehouse stocks into excess retail stocks

2. *To ensure that the relation between buyer and seller is a continuing one,* i.e. by developing repeat business, by checking deliveries, quantities, etc.

When the market is a competitive one, the salesman, in addition to performing the above functions, must ensure that he obtains the maximum volume of orders for his employer's particular products, consistent with the capacity of the retailer or consumer to absorb the product in question.

## THE OBJECTIVES OF NON-PERSONAL SELLING

Non-personal selling is more commonly termed sales promotion, and may be effected either through the spoken or the written word. Its objectives are—

1. To acquaint actual and potential purchasers of the products available, any changes in their nature, their prices, etc.

2. To create in the minds of potential or actual purchasers a favourable attitude to buying.

3. To convince distributors there is a market for the products in question.

4. To prepare the way for personal selling.

Non-personal selling is discussed more fully in the chapter on Advertising and Propaganda.

## THE FUNCTION OF SALES MANAGEMENT

Sales Management is the means by which the execution of marketing policy is controlled, i.e. the organization and regulation of selling activities. The functions of Sales Management are—

1. To organize, supervise and direct the work of salesmen so that they can be used with a minimum of wasted time and effort.

2. To train salesmen in selling generally, or to sell specific products.

3. To develop methods of remuneration and stimulation, so that salesmen will exert their best efforts.

4. To obtain personnel who can sell or be taught to sell, i.e. have, or can acquire, the ability to influence others to buy."

In proportion as these functions are performed adequately, so may the effectiveness of sales management be measured.

## THE FUNCTION OF THE SALES MANAGER

The executive within the distribution function responsible for sales management, i.e. the execution of marketing policy, is the Sales Manager. The practical means he formulates to do this is the selling policy. The Sales Manager as such may operate in any or all of three ways.

1. He may himself go out into the field and sell. Normally, the Sales Manager will confine his activities to contacting the more important customers who require special attention such that the ordinary salesman cannot

give, or with whom special negotiations on prices, etc., are essential. In the ordinary course of events, it is not desirable that the Sales Manager should sell to customers who can be handled by sales staff. Alternatively, he should go into the field and interview customers to clear up difficulties, and so assist his salesmen, or demonstrate to them how they should operate. Typically, the Sales Manager of the pre-scientific era in distribution concentrated too much on selling, i.e. tended to be a super-salesman, and devoted too little of his time to sales management.

2. He may visit his salesmen in the field, and by exercising his personality, stimulate them to greater efforts. In itself, the effect of this alone is seldom lasting. This procedure also was typical of the older type of Sales Manager.

3. By examining their methods analytically, he may indicate to salesmen how they can plan their work more effectively, i.e. arranging their journeys so as to save time and expense, by planning their method of approach, etc. This conception of sales management is the more modern, and requires a different type of executive to the one who will operate according to the two previous methods. He will be essentially control-minded, and will review the work of his staff objectively. Ultimately, his influence upon sales personnel, though less spectacular, will be more permanent and productive of results.

## THE OPERATION OF SALES CONTROL

Proper control implies the setting of an objective to be achieved at a specific cost, the formulation of procedures to obtain this objective, and the operation of these procedures in a prescribed manner. Under a controlled system of distribution, the major objective is the obtaining of sales,

budgeted in total, as described in Chapter IX. Sales management must examine the gross sales figure, and break it into sub-units which are allocated to sales personnel, and then initiate action so that the staff in the field will obtain orders up to the quantity required of them. To operate effectively within the scheme of controlled distribution, the salesman therefore must be instructed—

1. What sales he is expected to obtain in a specified period, i.e. his sales quota.
2. From what source he is expected to secure these, i.e. from what territory, what types of customer, for what products, and at what prices and terms.
3. At what cost he can do this, i.e. what salary and commission he shall be paid, and what expenses he shall be allowed.
4. What facilities management will provide to help him, i.e. what advertising and sales promotion help and special services, etc., will be made available to assist him in his contacts with customers.
5. How he is progressing from time to time in respect of sales results and costs.
6. What action will be taken by management if he does, or does not, achieve the result required of him.

Effective sales management must fulfil all these conditions, either informally in the course of personal interviews with sales staff, or preferably, in a more formal manner by means of a standard routine informing salesmen in writing of their territories, their customers, their sales quotas, their costs and their sales results.

Normally, the administrative aspect of recording and checking salesmen's work, and keeping them informed along the proper lines, is the responsibility of a specially organized sales office. Through the sales office, and the statistics collated therein, the Sales Manager can legislate to

control his field staff, and so ensure that the results required by the budget in respect of sales volume and the cost of obtaining them are being achieved. If they are not, he can take prompt action, either by replacing unsuitable and costly personnel, by reorganizing the work of the salesmen, or by instituting new selling procedures, so that the desired results will be obtained in future.

## **TYPES OF SELLING**

Broadly, selling may be of two types—

1. **Direct to the Consumer.** This may be effected by a manufacturer's salesman selling direct to a user, or by a salesman on the staff of a retail distributor who sells to the public. Essentially this type of selling involves a close knowledge of consumer needs.

2. **To a Distributor.** This may be effected by a manufacturer's salesman selling to a stockist, or by a wholesale stockist's salesman selling to a retail stockist. In contrast with the previous type of selling, the salesman must view his problem from the angle of the distributor, i.e. the advantages that will accrue to the distributor as the result of stocking the product.

In both cases, the actual technique of selling must be influenced by consideration of whether the product is a quickly consumable one, i.e. one which the consumer will buy at frequent intervals, or whether, once the consumer has made a purchase, he will either never require to buy the same product again, or will not do so for a comparatively long period of time. If the product is a quickly consumable one, the salesman must regard the obtaining of repeat orders as essential. That is, his interpretation to the consumer, or the distributor, of the services his principals offer in connection with the product must be such that their attitude will be to want to buy again. He also will be responsible for

intimating to his management whether their services have been effective and what improvements are desirable.

### CONCEPTION OF SALES MANAGEMENT IN RELATION TO CONTROLLED DISTRIBUTION

In the pre-scientific era of distribution, when selling was basically competitive in character, the purpose of sales management was to obtain sales objectives for specific products at the expense of the turnover sought by manufacturers of competing products. Thus salesmen on the staff of one organization directed their efforts towards obtaining the largest orders for their particular products, and directly or indirectly preventing salesmen on the staff of competing businesses from obtaining orders.

Fundamentally, the salesman was not concerned whether his customer made purchases out of proportion to his actual requirements as determined by market potentialities. Whether retail stockists bought in excess of desirable stock levels, was not his concern. We have shown how, in a scheme of controlled distribution, the problem of retail over-stocking is the concern of the producer. Thus, if distribution is to be controlled, the salesman should assess his customers' requirements, and sell accordingly. This assumes that competing salesmen would do likewise, and not overstock retailers at the expense of the salesmen who operate on a proper basis. Practically, this principle can only operate when the distribution of a *type* of product is completely controlled, i.e. when one salesman does not compete with another to obtain orders. This implies that quotas for the orders each salesman should obtain from given customers have been set by the industry as a whole, and that salesmen will not be permitted to sell in excess of these. In the case of industries operating under a monopoly, or State control, this is possible, and actually has been done. Under such

circumstances, salesmanship may become little more than order taking. It therefore is to some extent problematic whether creative salesmanship, which goes further than order taking, ultimately can have any place at all in a system of completely controlled distribution.

Reviewing the position, creative salesmanship may involve

1. Persuading the purchaser to buy more than he normally should, in view of the demand indicated by the flow of his stocks,

2. Indicating to the purchaser what he should stock, and in what quantities.

3. Educating the purchaser what he should do with his stocks, i.e. how they should be used, sold, etc.

Individualistic creative selling must necessarily expend considerable effort in counteracting the activities of competitors, and represents excess costs in respect of—

1. Duplicated selling effort as between the sales personnel of competing businesses.

2. Possible excess retail stocks of the type of product because of over-selling.

On the other hand, the educative aspect of creative selling must have the effect of extending the demand for a specific type of product, and so benefit all producers in the industry. When distribution becomes controlled, the following factors are important in relation to sales staff—

1. There exists an assessable potential market, which, under a system of controlled distribution, would be divided into quotas allocated to producers.

2. This would imply the allocation of quotas per territory to individual sales personnel, and also further allocation of the quantities to be sold per customer. It might be argued that, instead of allocating quotas per customer to each of a number of salesmen, the one individual could take all orders from a particular customer on behalf of

all the producers interested, thus eliminating duplicated sales effort.

Under such a system, superficially, it would appear that the sole functions of sales management would consist of the allocation of quotas, the planning of salesmen's work so that they will operate in the most economical way, ensuring that customers obtain the maximum service so that they will give repeat orders, and checking the work of the salesmen. Salesmen would become routine order takers, simply booking orders from each customer according to the allocated quota.

Under certain circumstances, this would be so. However, it must be remembered that, with the majority of commodities, the potential market is rarely static, nor are the supplies available always the same.

In the chapter on warehousing, it has been mentioned that warehouse stocks function as a reservoir between producer and consumer, but that these stocks can be controlled by price regulation if the need arises. The outward flow of stocks also can be regulated by means of propaganda and advertising. The latter will be discussed in the next chapter.

The chief factors to be noted here are that, firstly, the potential market varies according to fluctuations in consumer demand; secondly, the stocks available for this potential market may vary for reasons connected with the supply of raw materials, or with production facilities.

The salesman is the final point of contact between supplier and purchaser and he must interpret the needs of the consumer on the one hand, and those of the producer on the other, always seeking to make the one appreciate the problems of the other.

Under an ideally regulated system of distribution, emphasis of the salesman's function changes from exercising influence on the purchaser merely to buy his particular

brand of product to that of conveying the producer's policy to purchasers with regard to stock levels and prices in the cases where he contacts retail distributors, and with regard to methods of consumption and prices if he contacts consumers directly. For this purpose, a type of salesman is required, trained along different lines to those when the purpose of selling is to distribute in a competitive market.

Finally, and perhaps most important of all, the function of the salesman, as in one sense it always has been, must be continually to seek and develop new outlets for his product, so that the potential market will be exploited to the greatest possible extent.

## CHAPTER XIII

### ADVERTISING AND PROPAGANDA

GENERAL principles which must operate in respect of effective advertising and propaganda—Application of these principles—The aim of advertising—Advertising in relation to individual needs—Methods employed by advertising—Function of advertising in a scheme of controlled distribution—How advertising should be controlled.

IN the previous chapter, the functions of non-personal selling were described as being to inform the potential users of a product of what is available to them, and also to create in their minds a favourable attitude towards purchasing it. Advertising, as such, is commonly understood to imply endeavouring, by means of the printed word, to sell one product against a competing product in the same way as salesmen in a competitive market sell by means of the spoken word.

### GENERAL PRINCIPLES WHICH MUST OPERATE IN RESPECT OF EFFECTIVE ADVERTISING AND PROPAGANDA

Regardless of whether advertising is directed towards a competitive or a controlled market, it cannot achieve maximum effectiveness, and so must involve wasteful expenditure of money, time, and effort, unless it is planned and controlled according to the following principles—

1. *That it should be expressive of a clearly defined marketing policy.*

2. *That it should be planned to achieve specified objectives.*

If advertising effort is determined by expedients which arise from time to time, and is not planned systematically,

and in a coherent way, or for a sufficiently long period ahead, the result is diffused and wasteful effort.

3. *That it should represent a continuously applied expression of marketing policy.* This is a natural consequence of (2). If advertising lacks continuity, largely due to the fact that policy has not been clearly defined, then it becomes wasteful.

4. *That expenditure should be estimated in relation to anticipated results, i.e. budgeted sales.*

5. *That it should operate as an integral part of the marketing and selling plan.* This principle implies that the work of the sales force should be properly co-ordinated with propaganda activities, that selling staff should be kept continuously informed of advertising plans, etc., and that the maximum use should be made of advertising to influence distributors to stock and display the products in question.

6. *That it should be organized, bearing in mind what it is planned to sell, viz. what lines are regarded as important to sell, the stock position, the productive capacity of the factory, etc.* This principle would assume that the producer is in a position to deliver the goods as and when advertised, and in quantities to meet the demand it is anticipated will be created by advertising effort.

7. *That adequate distribution has been secured before advertising activities are initiated.* It is wasteful to advertise goods on a national scale unless national distribution has been previously obtained in all suitable outlets.

A strict adherence to the above-mentioned principles is essential if expenditure on advertising is not to be wasteful, and dispersed over a number of isolated, incoherent efforts, each of which may be considered to have a limited individual effect, but which, cumulatively, have little result, in comparison with what would have been achieved if expenditure

has been properly planned and controlled as one aspect of a co-ordinated marketing and selling policy.

### APPLICATION OF THESE PRINCIPLES

Before these principles can be applied, and in order that policy can be effectively implemented, decisions must be formulated on the following points—

**1. Who shall determine advertising policy?** This authority should be clearly defined. The definition of the policy normally should be as determined by the Marketing Committee, and approved by the Board of Directors.

**2. How shall expenditure be determined, sanctioned and controlled?** A rigid and systematic control should be maintained over expenditure by means of—

(a) A budgeted appropriation set yearly for each product group.

(b) A set percentage of the forecasted sales being fixed as this appropriation.

(c) The details of the appropriation, i.e. its allocation for different purposes in different media, etc., being fixed by the Marketing Committee, and finally approved by the Board of Directors as the financial authority.

(d) A proper control being instituted to ensure that the appropriation is not exceeded without proper authority.

**3. How shall advertising activities be co-ordinated with other sales effort?** If no single executive is responsible for advertising work, this is impossible. This principle is provided for through the Distribution Manager, who should be responsible for ensuring that—

(a) Advertising activities proceed as planned by the Marketing Committee.

(b) They are properly co-ordinated with the efforts of

the sales staff, and also utilized to the fullest extent by salesmen in their contact with retail stockists.

## THE AIM OF ADVERTISING

If the aim of advertising is to influence the individuals comprising a potential market to be favourably disposed towards a product, i.e. decide to purchase, or stock it, then in achieving this purpose, it must take due account of all those psychological factors important in creating the mental state of decision. Psychologically, decisions may be the result of any one of five circumstances—

1. The individual may experience certain *internal* conditions causing him to make a decision to act. For example, he may be thirsty, and decide to act so that his thirst will be quenched.

2. Certain *external* conditions may influence the individual to decide to act. For example, the roof of his house needs repairing, the rain comes through and ruins his furniture, and he decides to act, i.e. have the roof repaired.

3. A continual repetition of certain suggestions may cause him to act through sheer force of repetition. For example, his wife may continually urge him to purchase a motor-car, and in due course he acts accordingly.

4. Reasons why he should take a certain course of action may gradually crystallize themselves in his mind without conscious effort on his part, and in due course, when circumstances present a least line of resistance, he decides to act. For example, the reasons why he should purchase a new house may gradually become clearer in his mind, then a house is offered to him on exceptionally favourable terms, and he decides to buy it.

5. He may consciously weigh in his mind the reasons why he should or should not buy a house, and after careful

consideration, reach a decision based on sheer logic. This is the most conscious type of decision.

Advertising functions in two principal ways in respect of these different types of decision—

*Firstly*, it may function merely with the object of impressing the product upon the minds of potential purchasers so that when the need for it arises, i.e. the situation making them disposed to buy it develops, then they will know what is available, what the product will do for them, and where they can obtain it. This need for the product and the decision to purchase it may be created by conditions arising either within or without the individual as in (1) and (2) above.

*Secondly*, it may seek to create a consciousness of the need for the product by active means and so cause the individual to be favourably inclined to buy as the result of (3), (4) or (5) above. Most frequently advertising will function to develop the decision by means of (3) or (4).

The first of the procedures described will operate most typically in respect of products which are used and purchased frequently, i.e. in the case of what may be termed goods of the convenience type. Advertising of this character will not necessarily seek to obtain immediate results. It assumes that the need will arise at some time and is directed accordingly.

The second procedure seeks rather to educate people and also takes a long view of the possibility of influencing them to purchase. However, it differs from the first in that it actively seeks to create the conditions which will lead up to the prospect making his decision.

## ADVERTISING IN RELATION TO INDIVIDUAL NEEDS

In considering both ways in which advertising can function, it is significant that in each case reference is made to

the needs of the potential purchaser. If the need does not develop, or cannot be developed, then there can be no decision to purchase. Thus the individual types at which advertising is directed are of importance. They may be classified as follows—

1. Those who know their needs, and how to satisfy them.
2. Those who know their needs, but not how to satisfy them.
3. Those who have specific needs, but are not aware of them.
4. Those who do not have a specific need.

With the first and the last of these groups the task of advertising is more difficult than with the other two groups. It may be possible to influence the first group and change the way in which they ultimately decide to satisfy their needs, but this obviously is more difficult than when the individuals' mental states already have become crystallized into a decision as to how they are going to do this.

The advertising problem is simpler with those who know their needs, provided the needs they recognize as such are the ones the advertiser desires them to have. In such cases all he requires to do is to direct them in the procedure they should follow.

The third group of individuals requires educating to the extent that they will become aware of needs hitherto dormant in their sub-conscious mind. Subsequently, when as the result of this process, the needs become crystallized in their conscious minds, they will then require to be directed in the means they should adopt to satisfy them.

The last group presents the most difficult problem. If the need does not exist, either consciously or unconsciously, it will require to be created by artificial means. There are occasions when this can be done by suitable propaganda.

Needs, artificially created in this way, obviously cannot be real ones, whose satisfaction is necessary for the welfare of the individual. Advertising and propaganda employed for this purpose is normally regarded as unethical. For example, by means of advertising employed to stimulate the sales of certain remedies, the individual may be persuaded to believe he is suffering from ailments which exist only in his imagination, with ultimate detrimental effects upon himself.

### **METHODS EMPLOYED BY ADVERTISING**

In indicating to people how they may satisfy their needs or in making them aware of their needs, advertising may follow one of four procedures—

1. Direct suggestion.
2. Indirect suggestion.
3. Pseudo-logical reasoning.
4. Logical reasoning.

The direct method most frequently is employed when individuals are aware of their needs, and its most common form almost approximates to a short direct simple command or statement telling them how to satisfy these. The basic principle underlying this method is that by sheer force of continual repetition the individual eventually will yield to the suggestion.

Indirect suggestion is more subtle in its operation, and relates more to the bringing forward of a need into the consciousness of an individual, than to influencing him as to the means he should adopt to satisfy it, although it may apply to the latter as well. The technique broadly is to create an external situation or a series of situations, which will stimulate the need in the individual.

Both the direct and the indirect methods seek to arouse an emotional response in the individual, or in the section of the community of which he is a member, so that action

will be taken quite frequently without individual awareness of any specific mental process leading up to it, and in some cases even without the individual being conscious that a decision has been reached.

Often, however, the individual *must* make a decision of which he is conscious, although he may not know *why* he makes this decision. Although the basis of his decision is not any train of thought that has a logical sequence, the individual may prefer to consider he has made his decision in a logical way, and based on the facts of the situation. Actually, one course, and one decision only, can be the logical and right one, and this may not, and often is not, the course the advertiser or propagandist desires him to pursue.

In such cases, the first step is to present a fact or series of facts which the individual at once will easily recognize as true, because he has a means of checking them. Then, linked with these, the advertiser submits other facts which the individual has no means of checking. Because the first set of facts has been recognized as true, the tendency will be to accept the second series which cannot be checked. Success in linking the untrue or distorted unverifiable facts with true verifiable ones, is the art of pseudo-logical propaganda.

In reality it is rarely that sheer logic will appeal to the individual or community unless, at the same time, it evokes some emotional concomitant—and logical reasoning as such, seldom does this. Thus, in general, purely logical reasoning is infrequently employed in advertising unless an appeal is being made to the more highly intelligent individual. Even in such cases it seldom proves as effective as the more subtle technique of suggestion aimed to stimulate emotional responses which will provide the dynamic force essential to transform decision into action.

## FUNCTION OF ADVERTISING IN A SCHEME OF CONTROLLED DISTRIBUTION

The theory of the usefulness of advertising is that by reason of educating the community to a consciousness of its needs, it makes possible increased production, and so lowers prices. In the earlier stages of the development of a product this is undoubtedly so, i.e. advertising has educated people to realize they need such commodities as refrigerators, wireless sets, and so on.

In a free market, however, the time comes when competing producers cease to advertise in an educational way, and concentrate upon individually gaining the attention of the consumer, endeavouring to crowd out from his conscious mind any ideas concerning other producers' goods. This procedure develops into a rivalry between producers, each of which endeavours to outdo the other in the intensity of his advertising campaign.

Reverting to the conception of the usefulness of advertising as stimulating mass production, and so bringing about a reduction in prices to the consumer, advertising obviously cannot effect this reduction if its own cost more than offsets the reduced cost of production which it brings about. It is conceivable that without advertising, the market for a product might be developed merely as the result of one consumer recommending it to a friend, and so on. But this would be a slow process, and the cost of producing in a small way would militate against any volume of sales.

Thus, in the early stages of developing the market for a product, expenditure on advertising, proportional to the reduction in costs resultant from facilitating mass production, is justifiable and economic, i.e. at the educational stage. But when the supply available to fulfil market requirements becomes so excessive that individual producers

embark on competitive propaganda measures so that consumers will give preference to their particular brand of product, then advertising becomes uneconomic, and an unnecessary addition to the total distribution costs for that particular type of product.

The remedy need not be sought in controlling advertising as such. The trouble is more deep-seated. If production and the warehouse stocks of the commodity have been properly controlled in relation to the absorption capacity of the market, then the necessity no longer exists for the employment of *competitive* advertising as opposed to *educational* advertising—which would aim to extend the potential market. The same principle obviously applies to personal selling through the medium of salesmen.

### HOW ADVERTISING SHOULD BE CONTROLLED

Assuming that the need for advertising of the wasteful competitive type were rendered unnecessary by proper control of production, this would in part automatically reduce distribution costs. But it would not solve the problem entirely from the ethical point of view. This brief survey of the basis of advertising technique has been sufficient to indicate that it can be a great force for better or for worse in the life of a community. If necessary it can create needs, and can influence large numbers of individuals as to the means by which they will satisfy these needs. Thus, employed by the unscrupulous, whether to sell a product, a service, or a political ideology, it may do untold harm to the progress of the human race.

Responsible, thinking individuals realize this, and the more sincere members of the profession of advertising practitioners have voluntarily laid down certain codes for observance in the planning of advertising. In Great Britain, the Institute of Incorporated Practitioners in Advertising,

the Advertising Association, and other bodies have as one of their objectives the proper regulation of advertising. Proprietors of advertising media such as the daily papers, radio stations, poster sites, etc., also have their associations which aim to control advertising along certain ethical lines.

Such bodies, however, are interested in the competitive aspect of advertising. Ultimately, the only justifiable type of advertising must be that which will educate the community to a legitimate realization of needs, the satisfaction of which is going to be of real benefit to them. The producer is too vitally concerned with his own especial interests to be able to take an impartial view of what needs should be brought into the consciousness of the community. This leads to consideration of the extent to which some higher disinterested body should exercise a proper control.

In some cases the State has exercised this control. For example, in America, the famous Printer's Ink Statute makes it an offence, punishable by law, to produce and publish a misleading advertisement. In Great Britain, many attempts have been made to introduce similar legislation, but the result has been only a series of isolated experiments. For example, the advertising of investment trusts has had certain beneficial restrictions imposed upon it.

Ultimately, however, if the principle of regulated production and distribution is accepted, and with it the conception of advertising as being educational and not competitive, then there is a definite case for the regulation of advertising by the same State agency as is responsible for the development of the cultural standards of the community. Interpreted in terms of the system of producer-distributor corporations established under State surveillance, which to some extent has been developed, for example, in the agricultural industries in Great Britain, these producer-distributor corporations logically would develop advertising

and propaganda designed to increase consumption of their respective products, but, in their turn, they would be subject to control from a higher State authority, which would legislate impartially according to whether such advertising was likely to be of real educational value to the community, i.e. in creating needs and desires calculated to influence considerations such as standards of living and culture.

## CHAPTER XIV

### DISTRIBUTION OF THE FUTURE

Now, approaching the middle of the twentieth century, this generation has seen many changes. Some have profoundly disturbed those who have been nurtured in the concepts of competitive individualism. At present, the peoples of the human race are enduring changes at least as great as, and possibly more profoundly disturbing than, during the transition from the Domestic to the Factory systems in industry. The whole foundation of our social and economic structure is in a state of upheaval. What ultimately will emerge, it is difficult to forecast.

Business management of to-day, on the one hand, is vested in salaried executives, employed by combines, monopolies, or by large public companies with their many thousands of small shareholders. In contrast with public companies operating to pay dividends to shareholders are the Co-operative Societies, no less formidable in their structure. In varying degrees, local government authorities, or the State, are playing their part in industrial development—following one method in Great Britain, another in the United States, another in Russia, yet another in Germany. The single individual has disappeared—except in rare instances—as the dominating factor in a business organization, as also have the outstanding figures who, in the late Victorian era commenced to build up the businesses which to-day form units of gigantic industrial organizations. So has come a new age, new conceptions of production and distribution, the implications of which are still only vaguely appreciated.

Mass production first eliminated the individualistic crafts-

man, who sold his goods because they were the product of individualistic creative effort. It has clothed millions in massed-produced garments, given them mass-produced equipment for their homes, and by means of mass-produced newspapers, and cinematograph films, taught them to think and live more as a community than as isolated individuals. Mass production ultimately has necessitated regulation of production, and proper regulation of production logically can only be possible when distribution also is regulated. But we have not advanced very far along this road yet. When we do, individualistic marketing and selling of the competitive type will be eliminated. It may be possible to devise an alternative to State intervention in order to achieve this—alternatives are being tried, but experiments involving State control of distribution are the more advanced.

It might be argued that in Great Britain to-day, those industries in which the State has encouraged the establishment of Marketing Boards, have not yet shown any remarkable progress since the change. It is in fact true that in certain cases, prices to the consumer have increased subsequent to the establishment of the Marketing Board, whereas it would have been reasonable to anticipate decreases. In other instances, shortages of the commodity have arisen. Nor have the producers always been entirely satisfied with the arrangements that have been made to regulate their activities.

It is apparent that the establishment of any form of regulation must tend to eliminate producers and distributors operating in an uneconomic way. Inevitably, this will involve the elimination of the smaller and less effectively organized units. The proprietors of these naturally will not be in favour of regulation, however much this will benefit producers, distributors and consumers as a whole.

Similarly, it is axiomatic that regulation must imply

restriction upon the entry of new producers or distributors into an industry. Again the individualist will protest, however desirable it may be to limit production or to restrict the number of outlets through which the commodity is distributed so that this can be done in the most economic way.

Basically, such protests are founded upon the selfish ambition of individuals, or the short sightedness of those who would sacrifice the ultimate welfare of the community upon the altar of a misguided conception of personal freedom.

More serious, however, is the contention that the establishment of Marketing Boards or State intervention in industry has been demonstrated a failure because, instead of regulating, it has only added to the confusion of modern economic problems. The earlier experiments in which the State arbitrarily assumed complete control of a section of an industry and entered into competition with other producers should not be quoted as examples of more than what they were—instances demonstrating the futility of persons who know nothing about an industry attempting to operate it. Nor because in some cases State officials have been susceptible to bribery should a system be condemned. Because the London Passenger Transport Board, or the Milk Marketing Board has not operated completely in accordance with anticipations, it would not be reasonable to pronounce as unsound the principles they are seeking to achieve.

It must be borne in mind that an ideal solution has not yet been found of the problems associated with how far the State should intervene to regulate an industry, when this should take place; what voice producers, distributors, and consumers, and even operatives—if one desires to distinguish them from producers—should have in the control of industry. It is hardly a decade since the passing of the

Agricultural Marketing Act, which established the first Agricultural Marketing Board in Great Britain. The effects of the Industrial Revolution in introducing mass production, were to cause disturbances which were not adjusted for at least a century. It would be illogical to expect that mass distribution can be organized in a month, or a year. Likewise, it may be a century before the stresses and strains of the vast changes now taking place in our methods of distributing goods are adjusted and can be seen in their proper perspective.

## CHAPTER XV

### DISTRIBUTION AND WAR

DIRECTIONS in which State control has been exercised—Problems arising from State control of distribution under war-time conditions—Raw materials and plant facilities—Labour—Location of markets at home—Export markets—Market characteristics and their exploitation—Selling methods—Conclusion.

THE purpose of this book has been to provide an outline of the trends of thought and practice concerning the problems of distribution and finally to forecast what developments are likely in the future. It has been described how, subsequent to the Great War, there has been an increasing tendency for the State to intervene and exercise control over distribution activities—more so in some countries than in others.

Difficult conditions produce remedies which may not be acceptable under less desperate circumstances, or at least would require a longer period of time for their necessity to be understood. Thus, for example, the Great War accelerated the trend towards the application of scientific method to production. Subsequently, scientific management of production became firmly established on the basis of groundwork prepared under war-time conditions. But it was not until the very late stages of the Great War that the necessities of the situation caused the State to intervene to control distribution of certain commodities. This, to some extent, however limited, did prepare the way for the scientific control of distribution during the period of peace that followed.

Between 1919 and 1939 the theory and practice of distribution has evolved along logical lines as described in this book—with a wide gap between the theoretical concepts of what should be done, and the practice of what was being done.

However, when war was again declared in September,

1939, the gap between theory and practice was narrowed within a period of less than a month. Almost immediately, ministries were created to provide the mechanism by means of which the State assumed control of the distribution of commodities essential for the regulation of civil life and the prosecution of defensive and offensive hostilities. From the outset, a mechanism was put into operation to control distribution of the vital needs of the nation.

Fundamentally, this control proceeded through the Ministry of Supply, established by the Ministry of Supply Act, 1939. In this, the Ministry of Supply was given wide powers to control and regulate the production, the stocking and the distribution of essential commodities, even to the extent of replacing the management of a business if this was considered desirable. Other controls have been established through the Ministry of Food, the Ministry of Economic Warfare, the Ministry of Labour, and various departments of the Board of Trade.

### **DIRECTIONS IN WHICH STATE CONTROL HAS BEEN EXERCISED**

Control has only been exercised where such is considered essential to the welfare of the State under war conditions, but examination will establish that most commodities are affected indirectly, if not directly, due to the fact that there are only very few of them which do not contain raw materials which are subject to control. Where control is exercised, this takes the following directions—

1. **The control and regulation of stocks.** Producers, merchants, and retailers are required to furnish returns of stocks to control authorities who have power to take over stocks in excess of certain levels, or, to require producers to maintain stocks at given levels, or to purchase stocks or anticipated output entirely. Consumers also may be

prohibited from buying to build up stocks from which to draw for their personal use. Alternatively, if consumers hold stocks above certain levels, they may render themselves liable to prosecution.

**2. Assessment of requirements.** A corollary of the regulation and control of stocks is that requirements should be assessed so that stocks can be adjusted accordingly. The bases on which requirements have been assessed vary, the reason being that no adequate data in readily accessible form have existed in respect of the characteristics of regional or individual consumption of many products. In many cases data provided by the National Register have been used as some basis for assessing required needs. In others, consumers have been required to register, and to state their requirements. Nor have estimates been available of essential as opposed to non-essential requirements. Under war conditions, the former must be serviced first.

**3. Allocation of quotas.** Once requirements and consumption have been assessed, regionally and individually, the next stage is the allocation of quotas as between suppliers, as between stockists, and as between consumers, thus ensuring that producers receive a fair share of available turnover on the one hand, and that consumers receive their fair share of what is available, and so making the greatest use of existing stocks.

**4. Registration of outlets.** To ensure that stocks are distributed equitably in relation to local demand, and to know through which channels stocks are proceeding to consumers, registration of outlets has been instituted as a corollary of distribution control. Further, the registration of consumers in relation to specific sources of supply has tended to stabilize demand through individual outlets, and so render regulation less difficult.

5. **Standardization of products and qualities.** A multiplicity of brands and qualities renders stock control difficult, and inevitably results in total stocks being held in retail outlets in excess of what they should be to service actual needs for any particular type of product. Standardization of products and qualities, as in the case of "Pool" petrol, has eliminated this difficulty.

6. **Price fixation.** To prevent excess profits in relation to production and other costs, a measure of price fixation has been introduced, especially with regard to products coming under State control.

7. **Regulation of transport.** War conditions tend towards disruption of transport facilities. In order to make the most use of available transport, and to utilize it most effectively, the Ministry of Transport has assumed control and created the equivalent of a modified transport pool, the object of which is to make available transport to organizations having none, and loads to organizations possessing transport but no load.

The above outline of the chief directions in which the State has assumed control of distribution will confirm that a considerable proportion of the theory of scientific distribution in effect has been put into practice in mobilizing the nation for war-time conditions. Under normal conditions changes of this nature hardly could have been brought about and readily accepted by the community, except probably over a period of half a century.

It was inevitable that mistakes should have been made, and that the mechanism put into operation overnight, so to speak, should have weaknesses, but time will remedy these. It also is inevitable that changes thus made in the distribution structure of the nation must leave behind them their effects when normal times return. War has only served to accelerate the process of evolution, and it is reasonable

to assume that the regulation and control of distribution thus inaugurated, must be perpetuated—though undoubtedly to a modified degree. However, the fact remains that distribution has come to be scientifically controlled and regulated by the one authority capable of exercising adequate and effective control—the State—and that the advantages will be so apparent that control and regulation must continue.

### **PROBLEMS ARISING FROM STATE CONTROL OF DISTRIBUTION UNDER WAR-TIME CONDITIONS**

Under war-time conditions, industrial effort and the products and services resulting therefrom may be grouped according to three main categories.

1. Those essential to pursue war actively, i.e. the production and distribution of munitions needed by the defensive and the fighting forces and National Service units.

2. Those essential for the maintenance of civil life and morale.

3. Those not essential for either 1 or 2.

Of these, the first is obviously of the greatest importance, though the second is scarcely less important. The third group represent effort, products, and services, which only can be considered after the first two groups have been adequately catered for. In contrast, under normal and ideal conditions, the second group should be, but hitherto has not necessarily been, the prime consideration.

War-time control has been instituted to ensure the successful operation primarily of 1 and 2, and indirectly to curtail 3 when the latter may have an adverse effect upon the former. With the return of normal times, if control is adequately maintained, then 3 should continue to be curtailed to the extent that it will have an adverse effect upon 2.

In countries more or less continuously organized for war, such as Germany has been during the last five years, the tendency has been to maintain the distinction between the three groups of activity as exemplified by the guns instead of butter principle. If a nation is to continue in a state of war over a long period, it is essential that civil activities—as represented by category 2—should be organized and pursued independently of the production of munitions. When a country has not been accustomed to existing in a continuous and highly organized state of preparation for war, there will be a tendency to lose sight of the necessity for the maintenance of civil life and morale, and to concentrate upon the production of munitions only, with a resulting high degree of dislocation in the life of the community. Thus, while it should be regarded as essential that production and distribution of munitions for war and defence must be organized and pursued at high pressure, to no less degree should the production of essentials for the maintenance of civil life and morale be organized and actively pursued. Nor should these activities become confused or permitted to intermingle; they must be organized with equal effectiveness *and independently* of each other, so as to maintain balance in the life of the nation. If this principle is observed, then, when normal times return, civil activities can absorb a greater part of industrial effort again, and those essential to war, a lesser part, without undue disturbance of industrial equilibrium.

The chief problems arising from control relate to—

1. Raw materials and plant facilities.
2. Labour.
3. Location of markets at home.
4. Export markets.
5. Market characteristics and their exploitation.
6. Selling methods.

## RAW MATERIALS AND PLANT FACILITIES

Under war-time conditions, distribution of raw materials essential for the production of munitions or the maintenance of civil life has been made subject to State control as exercised by the Ministry of Supply, or other ministries specially organized for the purpose. The regional system operating under the direction of regional controllers ensures proper maintenance and distribution of stocks according to local needs. If necessary the control authorities have power to purchase stocks of raw materials from producers at home and abroad. Prices for purchase and resale are fixed by a committee of producers, expert advisers, and users of the product in question.

The problem of the individual manufacturer in relation to obtaining supplies of raw materials varies according to whether he needs them to produce commodities for—

(a) *Use by the fighting or defence forces.* If this is so, he can anticipate obtaining all necessary supplies so long as national stocks make this possible.

(b) *Essential civilian use.* The supplies available for this purpose will be dependent upon how far stocks are adequate to fulfil (a).

(c) *Non-essential or luxury use.* These needs should only be satisfied after adequate provision has been made for (a) and (b)—with one proviso—in order to build up credits abroad, it may be essential to export certain goods of a luxury type to neutral countries. For example, during the Great War, so that essential war materials could be purchased, corsets were specially manufactured for export to Spain. Luxury products produced for the purpose of building up credits abroad must rank equal in importance to those coming within groups (a) and (b), so far as supplies of raw materials are concerned. Later in this chapter,

special consideration is given to the question of export trade under war conditions.

It already has been emphasized that the manufacturer must not overlook the important factor that while war is an abnormal condition of comparatively short duration, and that while hostilities are in progress, all possible energies must be organized to defeat the enemy, nevertheless, the mechanism built up to meet war conditions must be so flexible that it can be transformed in a short time to cater for normal conditions with a minimum of dislocation. Actually, the converse also should be recognized. This flexibility implies that even under war conditions, the manufacturer should plan his equipment so as to be able to devote some, and if necessary the whole, of his production capacity to the needs of normal conditions. This means the application of the fundamental principle of scientific marketing, viz. to investigate what the market needs and the extent to which his plant can produce to cater for these needs. There is one important additional requirement imposed by control of supplies, i.e. an investigation of what raw materials are available for this purpose.

Thus the producer faced with the exigencies of war-time conditions who has available capacity must consider—

1. What the market needs—this necessarily must be in the widest terms, and quite frequently unexpected types of product may be revealed by investigation.
2. Which products needed by the market can be produced by his available plant and plant capacity.
3. For which of these products the constituent raw materials are available in adequate quantities.

On this basis, the framework of Marketing policy in respect of product ranges can be formulated.

## LABOUR

During war available labour necessarily must be restricted and employment equilibrium disturbed by the transfer of personnel to the fighting forces, to National Service, and to services essential for the maintenance of the necessities of civilian life. It is indefensible that those serving the nation in this way should receive a lower scale of remuneration for their vitally essential services, than those who can continue in their more or less normal vocations. Man power must be conscripted and mobilized, just as distribution and stocks of raw materials must be regulated, so that labour of the type needed is available when and where required. Thus labour, and inevitably wages, must be controlled, but again, as with raw materials and the production processes for which they are used, the resultant mechanism must be flexible so as to permit a return to normal without undue dislocation. In this respect, representatives of labour, capital, and expert advisers must continue to collaborate and determine—

1. What supply of different types of labour is available.
2. What are the labour requirements of the three types of industrial activity, i.e. for servicing munition production, for servicing essential civilian requirements, for servicing other requirements which fall within the "luxury" category.
3. How labour shall be allocated to each of these three types of activity, by groups and geographically.
4. What price shall be paid to labour as wages.

The individual manufacturer must consider his own marketing policy in the light of the products he has decided to produce, as the result of considerations discussed in the preceding section, the labour available, and its cost.

## LOCATION OF MARKETS AT HOME

Conditions of modern warfare create great changes in the location of markets immediately hostilities begin. Wholesale evacuation from vulnerable areas renders comparatively useless data compiled during normal times concerning population density. Thus, certain areas assume a new significance in the marketing plan, while the importance of others is diminished to a corresponding degree. Producers and distributors therefore must plan to make drastic revision of the geographical spread of their marketing activities, and to do this must accumulate new data.

It is impossible to forecast how permanent the redistribution of population caused by war will be when normal conditions return. The producer and distributor must investigate the extent to which his conception of the location of markets must be revised; he must institute procedures so that he can maintain contact with population movements, and legislate accordingly.

## EXPORT MARKETS

The obvious result of war is to close export markets with the enemy. Others cannot be exploited because—

- (a) Transport is prevented by hostile activity.
- (b) Products are needed at home for war or civil purposes, and so surpluses may not be available for export.
- (c) Goods exported to some countries may find their way into enemy hands, thus assisting the enemy to prosecute the war.
- (d) Exchange, or its equivalent in goods may not be available to finance imports by neutral countries.

Nevertheless, it is vital that export trade should be maintained for the following purposes—

1. To provide exchange for the purchase of essential war and other materials.

2. To prevent, as far as possible, neutrals, or enemy countries, from taking advantage of the situation to exploit markets hitherto closed to them and to acquire goodwill which they may retain when normal times return, or, in the case of enemy countries, of obtaining exchange with which to purchase war materials.

Thus, it is imprudent immediately hostilities ensue to contract industrial activity solely to meet the immediate requirements of war and the necessities of the home market. The individual producer has a number of alternatives open to him which will minimize the dislocation of war, viz.—

1. It may be possible to compensate for turnover lost in enemy countries, or through enemy activity in preventing transport, by developing trade with countries with whom the enemy is no longer in a position to trade.

2. He may enter into reciprocal arrangements with overseas manufacturers of commodities similar to his own, to produce and distribute on his behalf and so retain some measure of his goodwill.

3. He may ascertain from official sources in which countries exchange is required or desirable for purchasing essential raw materials or to prevent enemy trading. After investigation of all the relevant factors he may then manufacture specific products for these markets, so assisting to create the essential exchange reserves. In this case State assistance to obtain materials and labour may be anticipated.

In any case, and subject to the limitations imposed by the control of raw materials and labour for production to meet the requirements of the home market, he should endeavour to retain a nucleus of his export goodwill which can be extended when this is warranted by future conditions.

## **MARKET CHARACTERISTICS AND THEIR EXPLOITATION**

The problem of exploiting market characteristics changed as a result of, or directly caused by hostilities, must take into account—

**1. Changes in the location of markets.** These are chiefly changes in shopping habits resulting from, firstly, the movement of customers' residences away from the vicinity of some outlets, and, secondly, difficulties experienced by shoppers in securing transport to shops from which they customarily may make their purchases. The movement of groups of customers away from one shopping area to another may mean prosperity to traders in one region and disaster to those in another. If the manufacturer fails to take cognizance of this, his sales and marketing effort may be applied in the wrong directions. Similarly, interference with transport may prevent customers from shopping where they did previously. For example, habitual shoppers in the West End of London may find it difficult to reach the sources from which they have been obtaining supplies of certain commodities, and so will have to secure them from more accessible outlets, or, alternatively, do without them altogether. It may be that new shopping habits formed in this way will continue after cessation of hostilities.

**2. Changes in consumer habits.** Hostilities cause many changes in the habits of the community; these must be reflected by changes in the needs of individuals. For example, men who have left their civil occupations to join the fighting forces, no longer have the same needs as they did under normal conditions. Women who attach themselves to nursing or home defence units must change their mode of life. Thus the conception of the needs of the community and the quantity of the different types of

product necessary to satisfy these, must be completely re-orientated.

3. **Individual changes in purchasing power.** The economic repercussions of hostilities have varied effects upon individuals and their families. In spite of all efforts made by the State, war must make some of the rich poorer, and some of the poor richer, while the general total effect will be a tendency towards reduced individual purchasing power. Thus, during hostilities, and subsequently, new groups become formed at the different levels of purchasing power, often with needs, preferences and prejudices radically different from those under the old order.

4. **Geographical changes in purchasing power.** Changes in the emphasis upon different types of industrial activity essential in war-time will result in areas hitherto perhaps almost derelict, becoming prosperous, and other areas becoming correspondingly poor.

The manufacturer or distributor who has based his marketing policy and plan on data carefully compiled during normal times, at the onset of hostilities must commence once more from the beginning, and compile new data on the location of his markets and their characteristics. Nor should he regard as final any conclusions he may reach. During the critical period of hostilities, market characteristics will change rapidly, and a continuous check on trends should be maintained, so that policy can be changed immediately the need develops. Subsequent to the cessation of hostilities, further new trends will arise. The manufacturer or distributor should organize to be in a position to assess the effects of these, and legislate accordingly.

## **SELLING METHODS**

Three factors will make necessary revision of selling methods.

1. A shortage in the personnel available as outside sales staff.
2. Difficulties in transporting outside sales staff over their territories.
3. Changes in location of customers.

Thus the manufacturer or distributor must replan his selling methods to meet new conditions. He also must bear in mind that the purpose of his selling will have changed as follows—

1. Frequently it will not be so much a question of obtaining as large orders as possible, but rather of endeavouring to fulfil orders to the greatest possible extent—i.e. demand will exceed the stocks available.
2. With the limitations imposed by standardization of qualities and the fixation of prices, the scope for creative selling as such, will be considerably narrowed.
3. The function of the salesman will be directed towards maintaining goodwill between his employer and pre-war customers built up during normal times, and which will again be a concrete asset when normal times return.

In practice, it might be found that sufficient orders can be obtained without employing any salesmen at all, or without advertising. This would imply an immediate and tempting saving in sales costs. However, the ultimate result must be a loss of goodwill, probably built up after considerable expenditure on selling staff and propaganda. Thus, though adequate orders can be obtained without salesmen during the abnormal conditions of war, it would be imprudent to dispense with outside sales staff, or to discontinue propaganda altogether. Even if salesmen only call on customers as a goodwill gesture, and advertising can do no more than keep the producer's name before potential future customers, the expenditure involved represents an insurance for the future.

## CONCLUSION

The outcome of war is uncertain. It is logical to assume that, regardless of the duration of hostilities, and the strains imposed upon the stamina of the nation, the result must be tantamount to a revolution—psychologically, socially, and economically. Individual economics, habits, and outlook must be radically changed, both while hostilities are in progress and subsequently. To survive the great transition from peace to war, producers and distributors must reorganize their activities. This is essential not only for their own sake, but for the sake of the nation. The nation whose industries are organized the most effectively will emerge victorious. But the transition from war to peace may impose an even greater strain upon industry. If dislocation and chaos are to be avoided, the scientific approach, the careful study of current trends, the forecasting of future trends, and the formulation and execution of policy on the basis of established facts are equally important in war-time and during the struggle back to normal conditions. War does not only destroy buildings and human lives; it vitally affects the structure of society and commerce. The best line of defence is to organize for the changes that must ensue by assessing beforehand what they are likely to be.

The ultimate victor in war will be the country whose industries are the best organized to meet rapidly changing conditions, and to exploit effectively for the good of the nation markets as they are created and become available both in war and in peace. If production and distribution are properly organized, there should be no shortage of essential munitions for war, or of supplies necessary for the people. Nor, when war has ceased, should wheat again be burnt in one part of the world, while, in another country, demonstrations of unemployed demand bread.

# INDEX

ACCESSORY materials, distribution of, 75

Administration budget, the, 106

Advertising, 84, 109, 134

— Association, The, 144

—, definition of, 15

—, the effect of, 64

Agricultural Marketing Act (1931), 26

— marketing schemes, 25, 33

Anthropology and distribution, 50

BOARDS, marketing, 16, 147

Brand names, 65, 69, 70, 72

Brands and price policy, 109

Budget, the administration, 106

—, the financial, 106

—, the labour, 106

—, the material, 106

—, the production, 106

—, the sales, 106

Budgetary control, 105

CANADA, co-operation in, 34

Clayton Act, 29

Combines, 95

Communist State, the, 21

Competition and distribution, 43, 93

Comptroller's function, 116

Consumers, types of, 68

Control, meaning of, 15

—, sales, 127

Convenience goods, 73, 74

Co-operative Movement, The, 40

— Wholesale Society, The, 40

Creative selling, 130

DECISIONS, types of, 137

Design characteristics, 102

Designer, the functions of, 103

Developmental marketing policy, 99

Direct suggestion, 140

Distribution function, the, 77

—, general, 92

— manager's function, 116

— methods and surplus, 8

—, the object of, 11

—, selective, 92, 95

— structure, the building of, 12

Domestic system, the, 55

— — in industry, 6, 12

ECONOMICS and distribution, 47

English Hop Growers Ltd., 35, 37

Expenditure, advertising, 136

Export markets in war, 159

FAMILY businesses, 77

— —, development of, 12

Fascist state, the, 21

Fashions, 98

Federal Farm Board, The, 34

— Trade Commission, The, 29

Financial budget, the, 106

Finished goods, classification of, 72

Fixing prices, 111

Food Council, report by, 23, 32

Functional organization, 80

GENERAL distribution, 92

Germany, distribution in, 28, 34

Great War and distribution, the, 9,

154

— — — structure, the, 80

Grigg Commission, 23, 24

HABITS, consumer, 161

—, social, 98

Hastings Potato Growers Association, 34

Hops Marketing Board, 35

INCORPORATED Practitioners in Advertising, 143

— Society of Retail Distributors, 37

Indirect suggestion, 140

Industrial revolution and distribution, 7

— use, products for, 75

International relations and distribution, 10

JAPAN, distribution in, 28

LABOUR and war, 158

— budget, the, 106

Location of markets, 159

MANAGEMENT, scientific, 82

Market research, technique of, 44  
 Marketing, 84  
   — and production, 85  
   — and selling, 86  
   — boards, 16, 22, 27, 147  
   — committee, 86, 100, 119, 136  
   — definition of, 15  
   — policy, 86  
   — —, formulation of, 88-99  
   — — in war-time, 154  
   — schemes, 25  
   — —, scientific, 14  
 Material budget, the, 106  
 Merchandise, types of, 72  
 Merchandising units, 103  
 Merchant, evolution of, 17  
 Merchants, 59  
 Milk, distribution of, 23, 32  
   — Marketing Board, 28, 32  
 Ministry of Supply, 151, 156  
 Model stock plan, 119  
 Monetary system and surpluses, 5  
 Monopolies, 95

NATIONAL marks, 66  
   — recovery administration, 30  
   — Register, 152  
 Needs, types of, 139  
 Non-personal selling, 125

ONE-PRICE policy, the, 109  
 Organization, functional, 80  
 Outlets, registration of, 152

PACKING and transport, 85  
 Personal selling, 124  
 Planned production, 100  
 Planning stocks, 119  
 Plant, distribution of, 75  
 Policy, price, 109  
   —, the one-price, 109  
 Population and surplus, 8  
 Post Office equipment, 31  
 Price control, 114, 122  
   — fixing, 111, 163  
   — policy, 109  
   — —, the variable, 111  
   — ranges, 119  
 Prices, 20, 29, 50, 56, 94  
   — and production surplus, 10  
   — and stocks, 118  
 Printers Ink Statute, The, 144  
 Production and marketing, 85  
   — budget, the, 106  
   — manager and stocks, 118

Production plan, the, 100  
   — surplus, disposal of, 10  
 Propaganda, 134  
   —, definition of, 15  
   —, the effect of, 64  
 Psychology and distribution, 47  
 Purchasing power, 162

QUOTA system, 27  
 Quotas, 152  
   —, sales, 128

RAW materials, 55, 68  
   — — and war, 156  
   — —, control of, 156  
   — —, distribution of, 75  
 Registration of outlets, 152  
   — of retail outlets, 96  
 Regulation of distribution, 38  
 Retail Distributors, Incorporated  
   Society of, 37  
   — outlets, 93  
   — —, control by state of, 96  
   — —, manufacturer's own, 39  
   — —, registration of, 96  
 Retailers, independent, 57  
 Robinson-Patman Act, 29

SALES budget, the, 101, 105, 108  
   — control, 127  
   — manager, 124, 126  
   — —, the functions of the, 77, 83  
   — management, the function of, 126, 130  
   — quotas, 128  
 Salesman, the function of, 132  
 Scientific distribution, the era of, 42  
   — management, 82  
   — marketing, the era of, 14  
 Seasonal variations, 115  
 Selective distribution, 92  
 Selling, 84  
   — and marketing, 86  
   —, creative, 130  
   —, definition of, 15  
   — methods in war-time, 162  
   —, non-personal, 124  
   —, personal, 124  
   —, types of, 129  
 Shopping goods, 73, 74  
 Social habits, 98  
 Speciality goods, 73, 75  
 Specialization, primitive, 4  
 Standardization of products, 153

- State control**, 151  
 ——— intervention, 151  
 ——— in industry, 18  
**Statistics and distribution**, 46  
**Stocks**, 60, 62  
 ——— and the salesman, 130  
 ———, control of, 151  
 ———, warehouse, 101, 116  
**Substitute products**, 98  
**Suggestion**, direct, 140  
 ———, indirect, 140  
**Supply**, Ministry of, 156  
**Surplus**, 56, 60, 62  
 ——— and distribution methods, 8  
 ——— and the monetary system, 5  
 ——— and population, 8  
 ——— and transport, 5  
 ——— of production, disposal of, 10  
 ———, significance of, 2, 14  
**TOTALITARIAN** states, distribution  
 in, 28  
**Trade associations**, 33, 36, 95  
**Transport and surpluses**, 5  
 ———, definition of, 15  
 ———, regulation of, 153  
 ——— services and state interven-  
 tion, 21  
**UNITED** States, distribution in, 29  
**Units**, merchandizing, 103  
**VARIABLE** Price Policy, The, 111  
**Virginian Produce Exchange**, 34  
**WAR** and distribution, 154  
**Warehouse stocks**, 101, 116  
**Warehousing**, 85  
 ———, definition of, 15  
**Wheeler-Lea Act**, 29  
**Wholesalers**, 59  
**Woollen industry**, state interven-  
 tion in, 18

## PLANNED SELLING

By JOHN W. POWELL, A.M.C.T. (Eng.), *Late Technical Sales and Publicity Manager with Associated Manufacturers Co., London and U.S. A., etc.*

A practical guide for the commercial traveller, the speciality salesman, and the sales manager. It describes the methods used most profitably by British and American salesmen, and analyses and explains publicity, sales organization, and management methods which have been successfully used in all types and sizes of businesses.

In demy 8vo, cloth gilt, 244 pp. 8s. 6d. net.

## THE ADMINISTRATION OF MARKETING AND SELLING

By HAROLD WHITEHEAD, B.B.A., F.I.I.A.

This authoritative work shows how the whole function of selling should be planned and administered to meet modern needs. It is an important book of the utmost value to directors and executive heads of modern businesses, as well as to students.

In demy 8vo, cloth gilt, 338 pp. 15s. net.

## FUNDAMENTALS OF SALES MANAGEMENT

By J. RUSSELL DOUBMAN.

This comprehensive American book is indispensable to all who want a clear view of the nature of the sales organization, questions of personnel, sales promotion schemes, planning and other matters of vital interest to sales managers and executives.

In demy 8vo, cloth, 465 pp. 12s. 6d. net.

## ORGANIZING A SALES OFFICE

By L. URWICK, O.B.E., M.C., M.A., F.I.I.A., E. ASTON, *Sales Office Manager, Rowntree & Co., Ltd.*, and F. H. CORDUKES, *Office Manager, Rowntree & Co., Ltd.* With a supplementary chapter by C. H. TUCKER, *Manager, Office Machinery Section, Imperial Tobacco Co., Ltd.*

This book describes the reorganization of the selling departments of Messrs. Rowntree & Co., Ltd., further changes and improvements made in the past ten years; and the application of a similar centralization in Messrs. Player's sales office. A most stimulating book for all advertising and sales managers and business executives generally.

In demy 8vo, cloth gilt, 178 pp. 10s. 6d. net.

# PITMAN





